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1986 FINANCE FACTS YEARBOOK

A Factbook About Consumers and the Consumer Finance Business

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FOREWORD

Finance Facts Yearbook is an annual publication of the American Financial Services Association which also publishes the monthly "Finance Facts" and research reports on consumer financial matters. These and other publications are offered at a nominal charge as a public service by the American Financial Services Association, whose members number 550 companies providing financial services to consumers through over 11,000 offices in the United States and Puerto Rico.

AFSA's membership is comprised of nonbank financial companies including organizations commonly referred to as consumer finance companies, sales finance companies, industrial banks, industrial loan companies, retailers and others. Some members have insurance and retail subsidiaries, some offer commercial financing, some have manufacturing subsidiaries, some operate in Canada and some in Europe, Australia and Asia. Some members of AFSA are subsidiaries of highly diversified parent corporations, while others are subsidiaries of manufacturing companies, others of insurance companies, and others of bank holding companies.

The first seven chapters of the yearbook provide a convenient reference source of current information about significant aspects of the consumer sector. The human factors are briefly outlined: the size and make-up of the population as the underlying determinant of the types of goods and services needed; and the size and make-up of the adult population as the potential labor force to supply those goods and services. A review of consumer income, expenditures, saving and investment is followed by a description of consumer credit and the institutions involved.

Chapter 8, "The Consumer Finance Industry," provides a description of the business of finance companies and industrial banks, their markets, their sources of funds and other distinguishing characteristics of these financial institutions. Included is a brief account of the legal and regulatory framework within which these companies operate as well as the latest statistical information relative to finance company operations. The final section of Chapter 8, "DIDMCA" relates the implications for finance companies of the implementation of provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980.

Finally, the "List of References" may be helpful to those who wish to obtain more information on the consumer finance industry.

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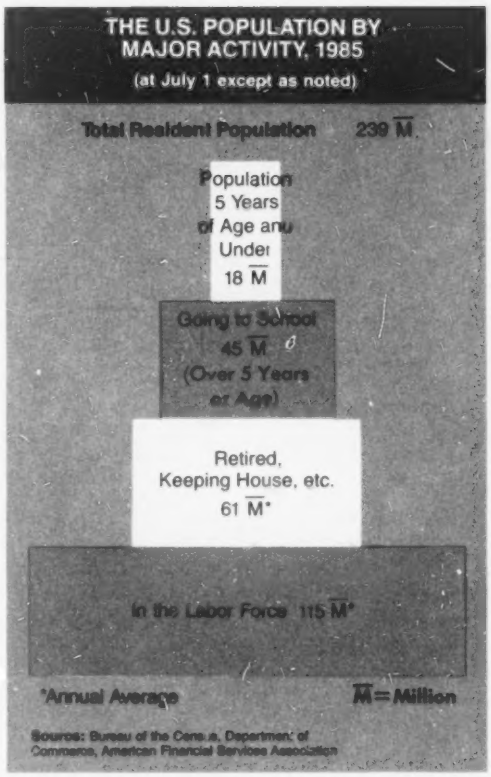
1

THE POPULATION

The size and composition of the population are important determinants of the extent of consumers' demands for goods and services and of the types of products required to satisfy them. Demographic and geographic characteristics, the education and mobility of the population, as well as other characteristics, are important factors in determining the amount consumers will save, invest, spend, and, more indirectly, in determining the types of goods produced. The size of the labor force, for example, places one restraint on the goods and services made available by any economy. Historically, long term growth has been a feature of the United States economy, and has been possible in part through the existence of a large and growing skilled labor force, a wealth of entrepreneurial spirit and ambition, and constantly developing technology within a stable political system.

To provide the goods and services sufficient to satisfy the demands of the entire U.S. economy, well over half of the population contribute to production, either in the labor force or in the home. Almost one-fifth of the U.S. population are currently in some kind of educational pursuit, presumably in the interest of securing for the future the productive capacity of our economy. The resident population of the U.S. excluding members of the Armed Forces overseas, was estimated at almost 239 million in 1985. Of this total about 115 million (48%) were in the labor force and about 45 million (19%), were in school full-time (Chart 1). Many of these students were also working, at least part-time.

CHART 1


THE U.S. POPULATION BY MAJOR ACTIVITY, 1985
(at July 1 except as noted)
Total Resident Population 239 M
Population 5 Years of Age and Under 18 M
Going to School 45 M
(Over 5 Years of Age)
Retired, Keeping House, etc. 61 M*
In the Labor Force 115 M*
*Annual Average
M = Million
Source: Bureau of the Census, Department of Commerce, American Financial Services Association

As demographic characteristics of the population are important in determining current patterns for spending, saving, and production, projections about these characteristics permit some advance planning for use of resources by individuals, business and government. The following sections provide data on some of the more relevant demographic determinants of economic activity.

Population Growth and Family Formation

The population of the United States excluding members of the Armed Forces overseas was estimated in mid-1985 to be 238.7 million, an increase of 0.9% over the previous year. By 1990, it is expected to increase by about 2% to stand at approximately 243.5 million.

Chart 2 shows the birth rate maintaining a very steady pattern that began generally late in the 1970's, after falling steadily since 1957. The 1985 increase in population is consistent with the less than 1% growth rates that resulted in part from declining birth rates and have maintained since the late 1960's.

Data available from the U.S. Department of Health and Human Services provide some detail on the composition of the year's increase in resident population. Preliminary figures show a natural increase in population (the excess of births over deaths) during 1985 of 1,665,000 persons, or 0.7%, the same rate of increase as in 1984. The remaining population increase is due to immigration. The number of births and deaths in 1985 were both higher than in 1984. An estimated 3,749,000 babies were born in the U.S., 1% more than in 1984. This total is the largest number reported since 1965. The 1% increase was basically accounted for by the comparable 1% increase in the number of women "of childbearing age," i.e. between

TABLE 1

HOUSEHOLD AND FAMILY STRUCTURE OF THE U.S. POPULATION*

(in millions)

						Projected**	
	1970	1981	1983	1984	1985	1990	1995
Total Resident Population.....	205.1	229.6	234.3	236.5	238.7	243.5	252.6
Households.....	63.4	82.4	83.9	85.4	86.8	94.2	105.9
Family Households.....	51.5	60.3	61.4	62.0	62.7	66.8	72.3
Married-Couple Family	44.7	49.3	49.9	50.1	50.4	53.0	56.3
Other Family							
Male Householder...	1.2	1.9	2.0	2.0	2.2	2.6	3.3
Female Householder.	5.5	9.1	9.5	9.9	10.1	11.2	12.7
Nonfamily Households...	11.9	22.1	22.5	23.4	24.1	27.5	33.7
Male Householder...	4.1	9.3	9.5	9.8	10.1	11.9	15.5
Female Householder.	7.9	12.8	13.0	13.7	14.0	15.5	18.2
Memo: Living Alone***.	10.9	18.9	19.3	20.0	20.6	na	na

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* Population and projected households as of July 1 of each year; estimates of households for years 1980 through 1985 are as of March.

** Population growth conforms to the Census Bureau Series II projection which is the middle estimate of three projections. Projections of number of households are the Census Bureau Series B based upon trends in marital status and householder proportions over the 1964-1978 period. A household consists of a person or group of persons who occupy a house, an apartment or other group of rooms, or a room that constitutes a housing unit.

***Of the "other" households, those that constitute one-person households.

15 and 44 years of age, rather than by an increase in the fertility rate. Although the year's birth count is the highest in 20 years it is still in contrast with an average of 4.2 million each year during the first half of the 1960's.

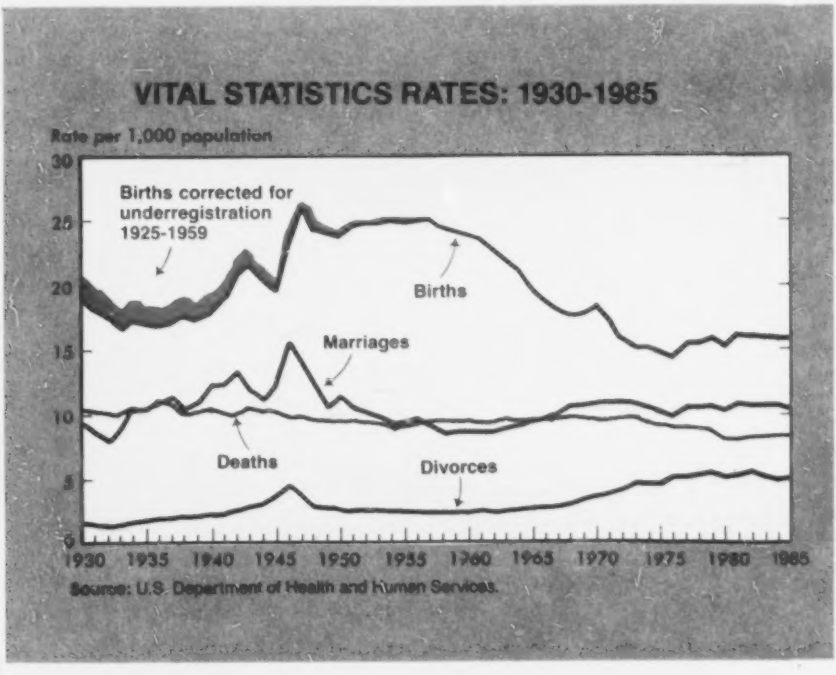
The number of births yielded a birth rate of 15.7 births per 1,000 population, as mentioned, exactly the same as in 1984. The fertility rate was 66.1 live births per 1,000 women between the ages of 15 and 44, also virtually indistinguishable from the rate last year. The total number of deaths was 2,084,000 which was the largest number ever reported for the U.S. The increase in the population was similar, however, and there was no change in the death rate, which remained at 8.7 per 1,000 population.

During the 1960's the number of marriages increased steadily from the 1958 low of 1.45 million, reaching 2.28 million in 1973. There was then a decline to 2.13 million in 1976, followed by a gradual rise to almost 2.5 million in 1982. In 1983 the number of marriages declined for the first time since 1975 to 2.444 million. This is followed by another decline in 1985, to 2.425 million marriages. The marriage rate per 1000 population decreased in 1983 to 10.5, lower than in 1982, and maintained at that level in 1984. The rate declined again in 1985, falling to 10.2. This is the lowest marriage rate since 1977. The divorce rate, which had increased rapidly since 1971, had dropped for three consecutive years leading up to 1984. In 1985, there were approximately 1.187 million divorces, yielding a rate of 5.0 per 1,000 population an increase of 2% over 1984.

Households

Trends in family formation and in the number of households are of particular economic significance because the primary unit of consumption is in many cases not the individual but the family or the household. This is certainly the case for housing and consumer durable goods such as automobiles, home furnishing and appliances. If present trends in family and household for-

CHART 2



mation continue and the long-term trend in economic activity continues generally upward, it is anticipated that the number of households will increase from 87 million in 1985 to about 94 million in 1990 and 106 million in 1995.

The 86.8 million households in the U.S. in March of 1985 represented an increase of 6 million households since 1980. The average annual increase since 1980 has been about 1.2 million, compared with an average of 1.6 million between 1970 and 1980. About 52% of the 1985 increase (3.1 million households) consisted of family households, while 48% (2.9 million) of the increase consisted of nonfamily households. Note that roughly half of the increase in households was thus accounted for by a group that now comprises only 28% of actual households. One result of such changes in household composition has been a drop in average number of persons per household. This figure has dropped off steadily, with the exception of one increase in 1983, since 1964 when the average household size was 3.33 persons. The 1985 average reached a new low of 2.69. The change has resulted from the falling birth rate since the 1960's (which is reflected in a steady decrease in average number of children under 18 years of age per household from 1.23 in 1964 to 0.72 in 1985) and the increasing proportion of adults who are living alone (17% of households in 1970 compared almost 24% in 1985). Average population per family (of related persons) dropped from 3.70 in 1964 (not its all-time high) to 3.23 in 1985. Clearly both the increasing number and the smaller size of households has economic implications.

Age Groups

The number of persons in various age groups also imposes requirements on the economy, particularly in the areas of education, the job market, and the market for various other products.

Table 2 details the U.S. population, including Armed Forces members residing abroad, by age group and within age group by sex as estimated for the years between 1980 and 1985, and as projected by the Census Bureau for the years 1990 and 2000. While the total number in each group is of interest for present-day current production and marketing plans, the rate at which the size of these groups is changing is of greater concern, for purposes of planning, to business and government. The changes in the size of the various age groups from 1980 to 1985 and as projected are shown in Chart 3.

The number of young people at home or in school, i.e. those under 16 years of age was almost the same in 1985 as in 1975 at just over 55 million. The group grew by only 0.4 million between 1980 and 1985, but is expected to increase by 2.1 million between 1985 and 1990 and by 1.9 million between 1990 and 2000. The number between 16 and 24 years declined 0.7 million during 1985 to 36.0 million, as the "baby boomers" continue to age out of that bracket. This group will continue to shrink as the century reaches its end, the projection for the year 2,000 being as low as 32.2 million persons.

The largest segment of the population, and the most homogeneous in terms of labor force participation and thus productivity, those between 25 and 64 years of age, (most of whom are either in the labor force or work at home) numbered 2.1 million more in 1985 than in 1984 and 10.9 million more than in 1980. This group will grow to approximately 128 million by 1990, and to about 141 million between 1990 and 2000. The population 65 and over, most of whom are retired, number 0.5 million more in 1985 than a year earlier and 2.8 million more than in 1980.

Regional Population and Mobility

The location and mobility of the population, in addition to its size and other features, is another important factor in determining what and where the country's economy will be required to produce. The location of an industry's center or the need to transport finished or unfinished products across the country can be greatly affected by movements or geographical shifts in the population, just as changes in industry can affect the mobility and geographical distribution of the popula-

tion. The highest mobility rates usually occur among persons in their twenties. Many are in the process of establishing households, starting new jobs, finishing school, service in the Armed Forces, or have been recently married. In their later twenties, many are buying homes or moving to larger living quarters because of growing families, or are moving to housing more convenient to schools.

TABLE 2

POPULATION INCLUDING ARMED FORCES ABROAD
BY AGE AND SEX JULY 1, 1980-2000
(In millions)

	1980	1981	1982	1983	1984	1985	Projected 1990	Projected 2000
Years of Age								
Both Sexes								
Under 5.....	16.5	16.9	17.3	17.7	17.8	18.0	19.2	17.6
5 to 15.....	38.8	38.2	37.9	37.7	37.7	37.7	38.6	42.1
16 to 24.....	38.8	38.6	38.0	37.4	36.7	36.0	32.3	32.2
25 to 34.....	37.6	39.1	39.7	40.6	41.4	42.2	43.5	36.4
35 to 54.....	48.6	49.1	50.6	51.8	53.1	54.4	63.2	80.8
55 to 64.....	21.8	22.0	22.1	22.2	22.3	22.3	21.1	23.8
65 and over..	25.7	26.3	26.8	27.4	28.0	28.5	31.8	35.0
Total.....	227.7	230.1	232.5	234.8	237.0	239.3	249.7	268.0
By sex								
Under 16								
Male.....	28.3	28.2	28.2	28.3	28.4	28.5	29.6	30.6
Female.....	27.0	26.9	26.9	27.0	27.1	27.2	28.2	29.2
16 to 24								
Male.....	19.6	19.5	19.3	18.9	18.6	18.3	16.4	16.4
Female.....	19.1	19.0	18.8	18.5	18.1	17.8	15.8	15.8
25 to 54								
Male.....	42.4	43.5	44.6	45.7	46.8	47.8	52.9	58.4
Female.....	43.8	44.7	45.8	46.8	47.8	48.8	53.8	58.8
55 to 64								
Male.....	10.2	10.3	10.3	10.4	10.5	10.5	9.9	11.3
Female.....	11.6	11.7	11.8	11.8	11.8	11.8	11.2	12.5
65 and over								
Male.....	10.4	10.6	10.8	11.1	11.3	11.5	12.7	13.7
Female.....	15.3	15.7	16.0	16.4	16.7	17.0	19.1	21.3
Total								
Male.....	110.9	112.1	113.2	114.4	115.5	116.6	121.5	130.4
Female.....	116.9	118.1	119.3	120.4	121.5	122.6	128.2	137.6

Source: Bureau of the Census
Note: Parts may not add to totals due to rounding

In the period between March 1982 and March 1983 about 16.6% of the U.S. population moved to a different residence within the United States. Comparison with the rates of the early 1970's and 1960's shows a steady decline in residential mobility (the rate in 1960-61 was 20.6% and in 1970-71 18.7%). The decrease seems primarily due to the lower rates of local moves (moves within the same county). By educational attainment, mobility during this period was as follows: 10.1% of persons with 8 or fewer years of school completed had moved to a different house in the United States, while 15.8% of those with 4 years of high school and 17.4% of those with at least 4 years of college had moved.

Population Change by Region

The U.S. population grew by 11.4% between 1970 and 1980. Between 1980 and 1984, the increase was 4.2% (9.6 million). Of this growth, 91% was in the South and West. Growth in various regions of the country is shown in Chart 4. Gains in resident population higher than the overall U.S. gain between 1970 and 1980 occurred in the Pacific, Mountain, West-South-Central, East-South-Central and South Atlantic States. Between 1980 and 1984, growth was higher than the overall 4.2% in the same group of regions with the exception of the East-South-Central States. Declines in resident population occurred in the Mid-Atlantic States during the earlier period and in the East-North-Central States since 1980. This decline, however, slowed in 1984. Part of the differential in rates of population growth is explained by differing birth rates, but most of the difference has resulted from changing economic developments and the highly mobile character of the population of the United States. In the West and South, nearly half (49.5%) of the growth was due to migration.

CHART 3

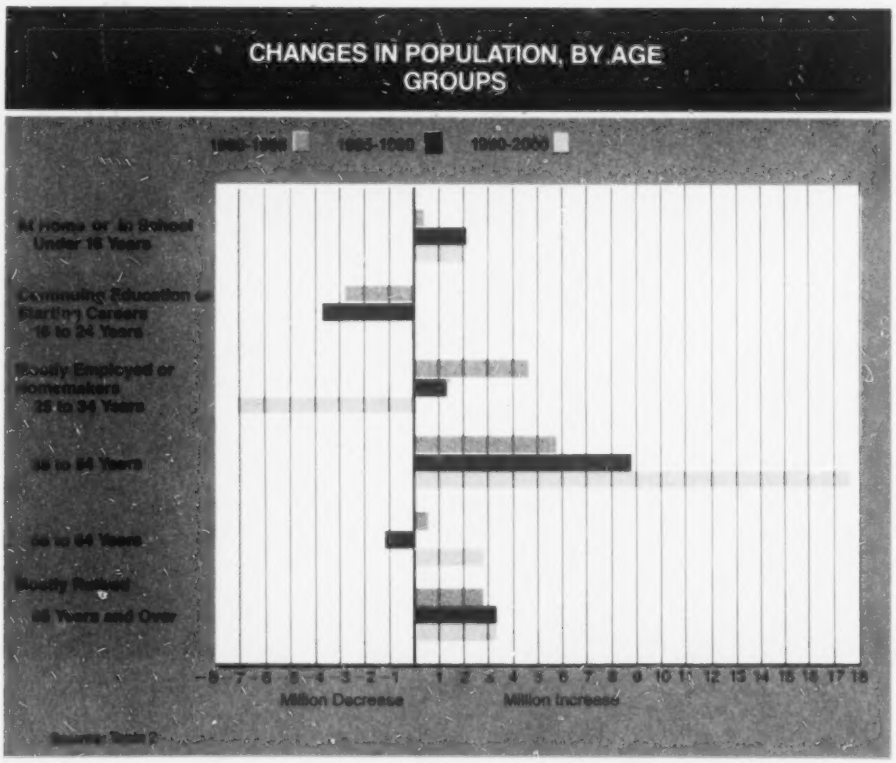
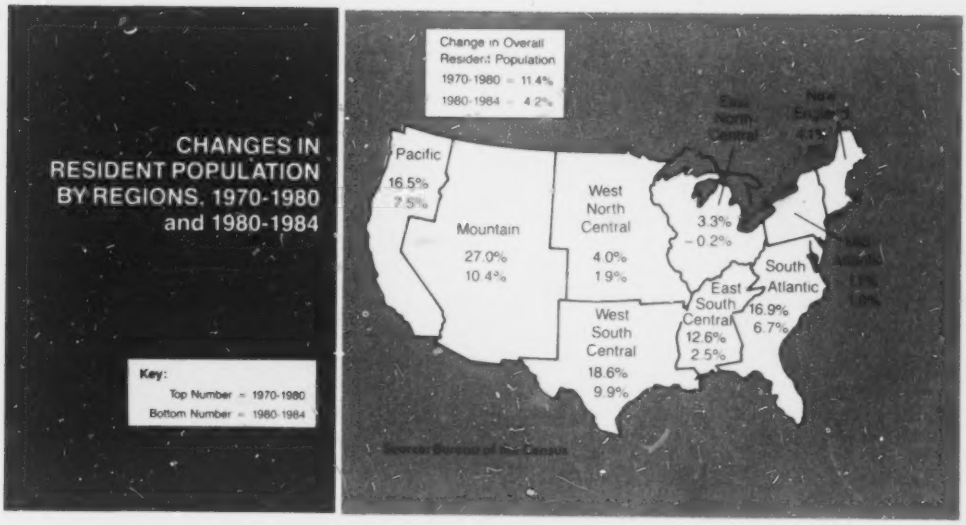

CHANGES IN POPULATION, BY AGE GROUPS
1980-2000
At Home or In School Under 18 Years
Commuting Education or Starting Careers 18 to 24 Years
Mostly Employed or Homemakers 25 to 34 Years
35 to 44 Years
45 to 64 Years
Mostly Retired 65 Years and Over
Million Decrease
Million Increase

CHART 4


CHANGES IN RESIDENT POPULATION BY REGIONS, 1970-1980 and 1980-1984
Key:
Top Number = 1970-1980
Bottom Number = 1980-1984
Change in Overall Resident Population
1970-1980 = 11.4%
1980-1984 = 4.2%
Pacific
16.5%
7.5%
Mountain
27.0%
10.4%
West North Central
4.0%
1.9%
East North Central
3.3%
-0.2%
New England
4.1%
South Atlantic
16.9%
6.7%
East South Central
12.6%
2.5%
West South Central
18.6%
9.9%
Source: Bureau of the Census

2

OCCUPATIONS OF THE POPULATION

The potential of an economic system to provide goods and services to satisfy the demands made of it is limited by the size and skills of its labor force and by its managerial capabilities. The quality of a present-day work force is a product of past education and training. The continued productivity of the labor force will also depend on education and training, and on a multitude of government policies and incentives, both intended and unintended.

Labor Force

The potential labor force, defined as the noninstitutional population 16 years of age and over, consisted of an average of 179.9 million people in 1985, an even 1% larger than in 1984 (Table 3).

The actual labor force, defined by the Department of Labor and the Bureau of the Census as those persons employed and looking for employment, was about 117.1 million in 1985, 1.6% larger than in 1984.

Those 16 years of age and over who were not in the labor force, i.e. those keeping house, going to school, unable to work and retired, numbered 62.7 million. The labor-force participation rate was thus 65.1% among the noninstitutional population 16 years of age and older.

School Enrollment

Approximately 57.3 million persons between the ages of 3 and 34 were enrolled in schools or colleges in the United States either full or part-time in October, 1984 (Table 4). The number has fallen each year since 1981, and the decline since that year now measures almost 2.8%. The students comprised 46.8% of the total resident population in this age group, a somewhat lower ratio than was measured for 1983. School enrollment among children 3 and 4 years old has increased markedly since 1970. In 1970, there were 1.1 million children enrolled in nursery school, compared with 2.4 million in 1984. This increase is primarily due to higher enrollment rates among 3 and 4 year-olds, rather than any drastic increase in the number of eligible nursery schoolers. In 1973, only 17.7% of 3 to 4 year olds were enrolled in nursery school and by 1984 the figure had risen to 33.1% This increase is certainly at least in part due to the increasing labor force participation rate as families with both parents working become more common. In the same period, the overall labor-force participation rate has risen from 61.3% to 65.1% and that among women 16 years and older from 44.7% to 54.5%.

The long-term decline in the number of younger children, however, has caused gradual decline in the grade school population. Elementary school enrollment peaked in 1970 at 34.0 million and had dropped by 21% to 26.8 million in 1984. High school enrollment in 1984 dropped again to 13.8 million, about 2 million below the 1975-77 peak. As the "baby boomers" have left the elementary and high schools, there has been a significant increase in the number of college students since 1970. The total number

TABLE 3

LABOR FORCE PARTICIPATION OF THE POPULATION 16 YEARS OF AGE AND OLDER, 1980-1985
(In millions of persons, annual averages)

	1980	1981	1982	1983	1984	1985
Noninstitutional Population*	169.8	172.3	173.9	175.9	178.1	179.9
Labor Force including resident armed forces	109.0	110.8	111.9	113.2	115.2	117.1
Armed forces	2.1	2.1	1.7	1.7	1.7	1.7
Civilian labor force	106.9	108.7	110.2	111.6	113.5	115.5
Employed	99.3	100.4	99.5	100.8	105.0	107.2
Unemployed	7.6	8.3	10.7	10.7	8.5	8.3
Not in labor force	60.8	61.5	62.1	62.7	62.8	62.7

Source: Bureau of the Census and Bureau of Labor Statistics.
Note: Parts may not add to totals due to rounding.

*Does not include those in mental, penal or welfare institutions.

TABLE 4

ESTIMATED SCHOOL ENROLLMENT 1980-1984*
(In thousands)

By Grade	1980	1981	1982	1983	1984
Nursery school	1,987	2,031	2,153	2,350	2,354
Kindergarten	3,176	3,272	3,299	3,361	3,484
Elementary school	27,449	28,241	27,412	27,198	26,838
High school (grades 9-12)	14,556	14,935	14,123	14,010	13,777
College or professional school	10,180	10,473	10,919	10,825	10,859
Total	57,348	58,935	57,905	57,745	57,313

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* As of October of each year.

reached 10.9 million in 1982 and fell slightly to 10.8 million in 1983. It was virtually unchanged in 1984. From 1970 to 1984, the overall increase in the number of college students was 47%, and between 1965 and 1984, 92%. From 1970 to 1982 the majority of the increase in college enrollment was due to the growth in college attendance by women (3 million in 1970, 5.5 million in 1984). In fact, in 1982 there were 100 thousand more women than men enrolled in college. The number of women college students declined somewhat in 1983 and fell below the number of male college students. Both male and female college populations grew in 1984, but men again outnumber women by 166,000.

Nonetheless, the long term increases in both the number and proportion of female college students coincide with other social and economic changes that have emerged recently among women such as marrying later, increased participation in the labor force, and continuing to work after children are born. The proportion of women in the labor force has risen steadily since 1970, the civilian labor force average participation rate for women having risen from 43.3% in 1970 to 54.5% in 1985. Since 1978, more women have participated in the labor force than have not.

Labor Force Participation

The total labor force, including members of the Armed Forces, averaged 117.1 million in 1985, up almost 2 million, or 1.6%, from 1984 (Table 3). With no change in the number of Armed Forces members, the civilian labor force also rose by 2 million. Average civilian employment for the year had decreased by almost 1 million to 99.5 million in 1982 (the first such decrease sine 1975). This decline was recovered in 1983 and the average civilian employment since has risen to 107.2 million. In 1985, the average number of unemployed persons fell back to the 1981 level. With labor force and employment growing well and unemployment declining 1985, like 1984, was again an excellent year on the overall employment front.

Distributions of young people (16-21 years of age) in school and in the labor force are shown in Chart 5. Labor force participation changes from time to time for many homemakers, students, retired and disabled persons and others. By age, those in the 16 to 19 years age group are the least likely to participate consistently in the labor force (Chart 6). The drop in their participation since early 1979 seems to have halted, the rate remaining around 54% in 1984 and

CHART 5

CIVILIANS 16-21 YEARS OF AGE IN SCHOOL AND IN THE LABOR FORCE 1970 AND 1984

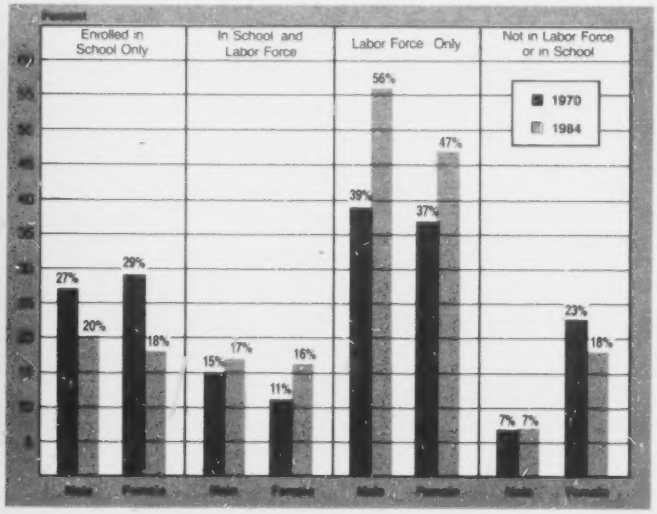
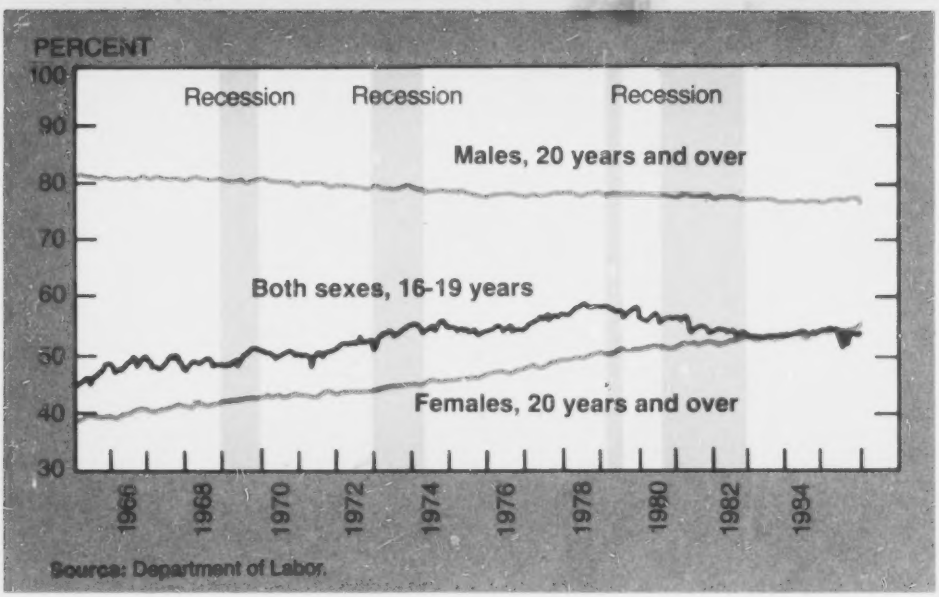


CHART 6

CIVILIAN LABOR FORCE PARTICIPATION RATES BY SEX AND AGE, 1965-1985

(Seasonally Adjusted)



1985. There has been a very slow long-term decline in the participation rate of males 20 years of age and over, from 82.0% in 1972 to 78.0% in December, 1985. By contrast, participation by women 20 years of age and over has increased from 43.9% in 1972 to 54.0% in December, 1984 and again to 55.0 in December, 1985.

Employment by Industry

By industry, employment patterns were rather divergent during 1985. The number of jobs in the mining and manufacturing industries declined throughout the year, while government and transportation jobs grew very modestly. More rapid growth took place in services, finance and real estate, wholesale and retail trade, and construction. The small and volatile construction industry, in fact, showed the most rapid increase in employment for the year (Chart 7).

Occupations

The average number of employed civilians for 1985 rose by about 2 million (2%) in 1985 from the year earlier to 107.2 million (Table 5). The number of executive and managerial workers was 12.2 million in 1985, up 5.6% from 11.6 million in 1984. The number of other professionals (doctors, lawyers, scientists, teachers, etc.) rose 2.6% to 13.6 million. All other administrative and service occupations, which at 77.8 million is the largest group of occupations, grew 1.7%. Payroll jobs in farming, forestry and fishing (operators, managers and other positions) declined again, by 3.6%, to just 3.5 million.

TABLE 5

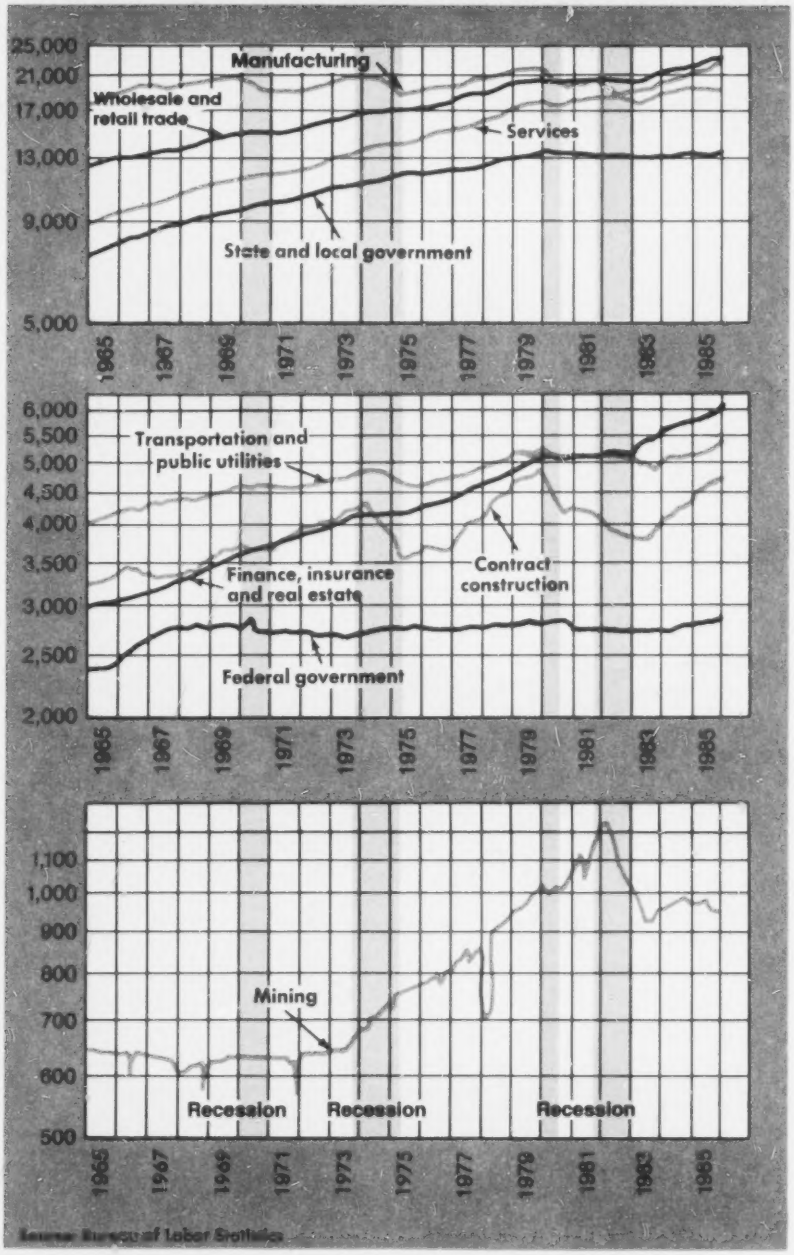
EMPLOYED CIVILIANS 16 YEARS AND OVER BY OCCUPATIONAL GROUPS, YEAR-END 1984 AND 1985
(In thousands, annual averages)

	1984r	1985
I. Managerial and Professional Specialty..	24,858	25,851
A. Executive/Administrative.....	8,343	8,903
B. Managerial.....	3,228	3,318
C. Professional Specialists (Total)...	13,286	13,630
a. Teachers (all levels).....	4,060	4,166
b. Health Specialists.....	2,704	2,734
c. Engineers.....	1,627	1,683
d. Scientists.....	861	947
e. Legal Professions (Lawyers and judges).....	678	671
f. Other Professional Specialties.	3,355	3,428
II. Technical Sales and Administrative Support.....	32,476	33,231
A. Administrative Support.....	16,722	17,309
B. Sales Occupations.....	12,582	12,667
C. Technicians and Related Support....	3,172	3,255
III.Service Occupations.....	14,151	14,441
A. Food Service.....	4,989	5,094
B. Janitorial.....	2,802	2,815
C. Health Service.....	1,746	1,760
D. Personal Service.....	1,943	2,049
E. Protective Service.....	1,678	1,718
F. Private Household Service.....	993	1,006
IV. Precision Production, Crafts, Repair...	13,057	13,340
V. Operatives.....	16,864	16,816
VI. Farming, Forestry and Fishing.....	3,600	3,470
Total.....	105,005	107,150

*Source: Bureau of Labor Statistics.
Note: Parts may not add to totals due to rounding.

CHART 7

EMPLOYMENT BY INDUSTRY
1965-1985
(nonagricultural payroll, quarterly average, in thousands)



Source: Bureau of Labor Statistics

CHART 8

CIVILIAN UNEMPLOYMENT RATES BY AGE AND SEX
1960-1985
(Seasonally adjusted)

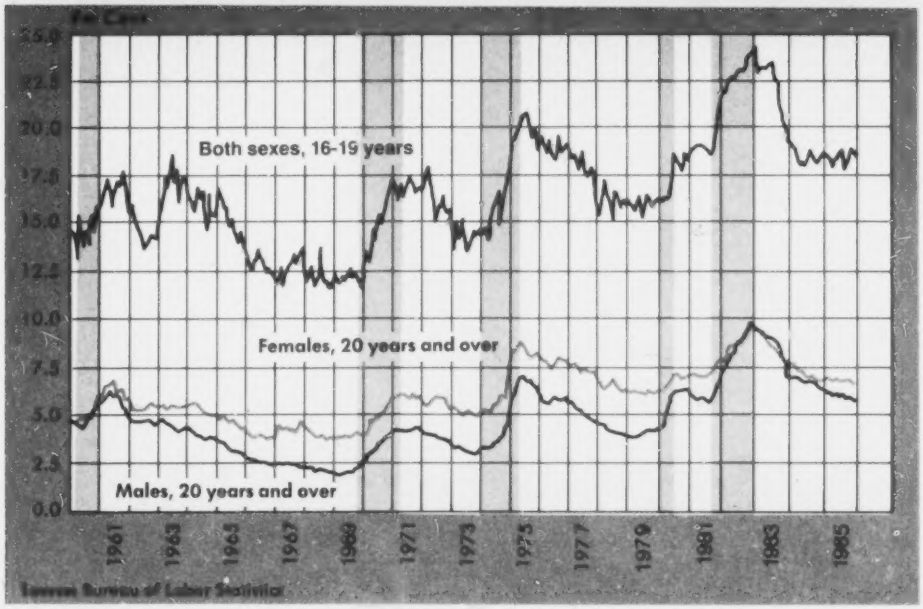


CHART 9

HELP-WANTED INDEX
AND THE UNEMPLOYMENT RATE, 1975-1985
(Seasonally Adjusted)

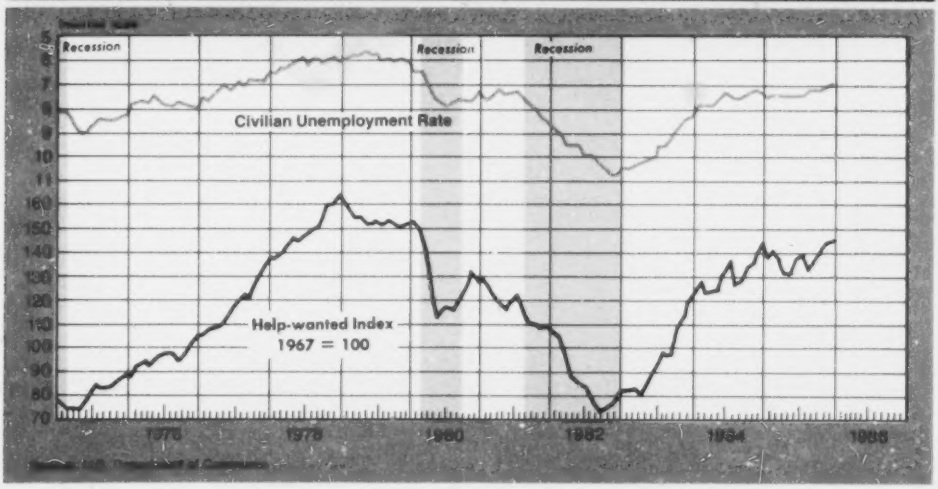
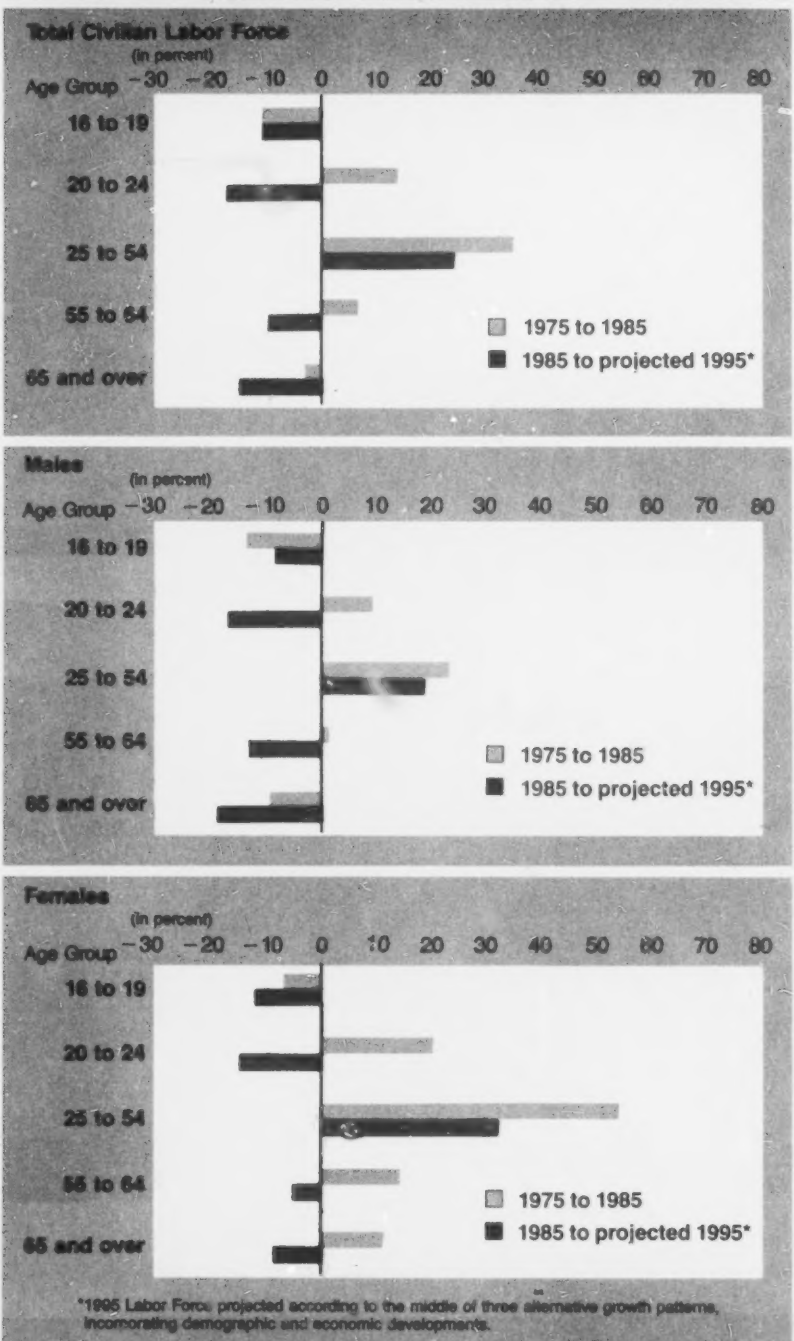


CHART 10

PERCENT CHANGES IN THE LABOR FORCE BY AGE GROUP AND SEX, 1975-1985 AND 1985-1995*



*1995 Labor Force projected according to the middle of three alternative growth patterns, incorporating demographic and economic developments.

Unemployment

The civilian unemployment rate averaged 7.2% in 1985, even lower than the previous year's average of 7.5%, and much lower than the 9.6% average of monthly rates experienced in 1983. The rate for teenagers averaged 18.6%, also slightly lower than 1984 and much lower than 22.4% in 1983 (Charts 8,9). The Help-Wanted Index, one indicator of current demand for new workers, reached its high of over 150 in 1978 (1967 = 100). It was at a ten-year low around 72 in 1982, and had rebounded to 83 by year-end 1982. At the end of 1984, it was approaching its previous high at 145. During 1985, the index faltered, but had regained 145 by December (Chart 9).

The Labor Force in the Future

The civilian labor force's projected growth to 129 million by 1995 will produce a rather different age distribution profile from that which developed during the 1970's and early 1980's (Chart 10). The proportion of 16-19 year olds in the labor force in 1995 will be approximately 5.5%, compared with 6.8% in 1985. The 20-24 year age group's proportion will also decline to 10.1% from 13.6%. The 25-54 year bracket will grow from 66.6% of the labor force to 74.1%. Additionally, both of the age groups over 55 will also comprise smaller proportions of the work force in the 1990's.

3

THE ECONOMY

The United States economy is the world's largest and provides one of the world's highest standards of living for its 239 million citizens. Generally, the size of an economy is measured in terms of its output or product, and the changes over time in this output are known as economic growth. In the United States, the Department of Commerce measures economic output and activity in the National Income and Product Accounts (NIPAs) and the Federal Reserve Board maintains the Flow of Funds Accounts (FOFs) which measure the stocks of assets and liabilities in the economy.

The National Income and Product Accounts registered Gross National Product in 1985 of just below 4 trillion dollars, or $3,988,500,000,000.00. The NIPA system divides the economy into four sectors: households, businesses, government(s) and foreign trade (usually shown as net exports). Table 6 shows the percentage distribution of GNP among the four sectors for the years 1970, 1982, 1983, 1984 and 1985 and Chart 11 shows the same information for 1970 and 1985. Both show that the consumer sector accounts for about 3/5 to 2/3 of GNP. It should be noted that the effect of the foreign

TABLE 6

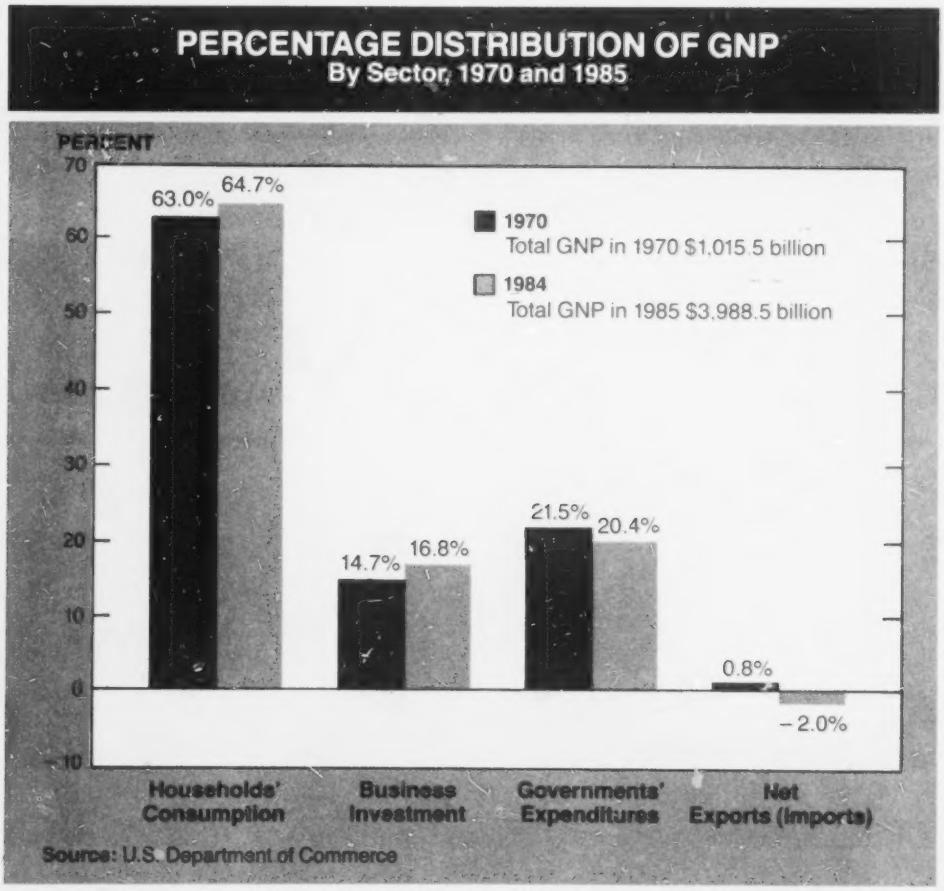
DISTRIBUTION OF GROSS NATIONAL PRODUCT BY SECTOR, SELECTED YEARS

	1970	1982	1983	1984	1985
HOUSEHOLDS (Personal Consumption Expenditures).....	63.0%	64.8%	65.5%	64.2%	64.7%
BUSINESS (Gross Private Domestic Investment).....	14.7%	14.1%	14.8%	17.9%	16.8%
GOVERNMENTS (Government Purchases of Goods and Services....	21.5%	20.3%	19.9%	19.5%	20.4%
NET EXPORTS (Exports minus imports).....	0.8%	0.8%	-0.2%	-1.6%	-2.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%
Gross National Product (billions).....	$1,016	$3,166	$3,402	$3,775	$3,989

trade sector has been somewhat unusual in the past 3 years. Prior to 1983, the U.S. was a net exporter of goods and services, meaning that we exported more than we imported (with that item making a positive contribution to GNP in the NIPAs). For 1983, 1984, and 1985, however, the U.S. has been a net importer, showing negative net exports. For 1984, the magnitude of the negative effect was much larger than the usual magnitude of its positive effect, suggesting the reason for growing national concern over the huge trade deficit. Certainly in 1985 the situation did not improve, as the deficit increased slightly. The trend during the year itself, however, was toward some improvement in the second and third quarters, as the dollar weakened.

Chart 12 shows real (inflation-adjusted) GNP (in 1982 dollars) over a longer period, from 1929 to the present. Real output has grown a total of 403% in that period (a compound average rate of 2.93% per year for 56 years), and per-capita GNP has grown 162%. Of course, the growth did not take place at steady rates, but was more volatile over the long run. The most marked of the fluctuations were caused by extraordinary events affecting the economy such as the Great Depression (1929-33) an the various wars (WWII, Korean, Vietnam) that had significant effects on economic activity.

CHART 11



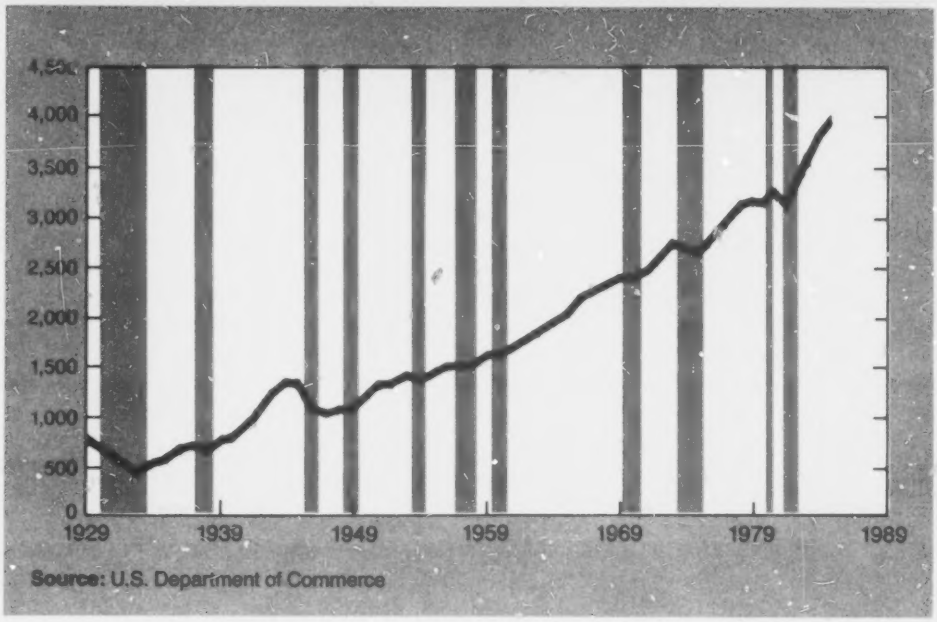
PERCENTAGE DISTRIBUTION OF GNP
By Sector, 1970 and 1985

Source: U.S. Department of Commerce

CHART 12

REAL GROSS NATIONAL PRODUCT, 1929-1985

In billions of 1982 dollars



Source: U.S. Department of Commerce

4

CONSUMERS AND THEIR INCOME

A major driving force necessary for continuing economic growth is the income flow generated by the productivity of the economy. As we have seen, the expenditures of individuals make up a major part of GNP in the U.S., making their income characteristics important also. Wage and salary income received by individuals, income from investment in capital (in anticipation of future productivity) and as transfer payments (payments for which no service is currently rendered) from government are the major components of personal income in the U.S.

Personal Income and its Sources

Personal income totaled $3,293.5 billion in 1985, 5.8% higher than in 1984 (Table 7). This increase was slower than that during the previous year. The only component of personal income that grew faster than in 1984 was transfer payments, and at the same time individuals' contributions for social insurance (social security, etc.) rose both faster than during 1984 and faster than did income in 1985. Part of this disparity is explained by the increase in the maximum social security contribution late in the year.

In part due to the methods used to determine benefits, during the early 1980's, transfer payments (income received by individuals, generally in monetary form, and for which no services are currently rendered) had been increasing faster than had income received by current producers. This imbalance caused some problems for governments (which are generally the parties making these payments), especially at the federal level. Liberalized social security, veterans', and government pension and welfare benefits accounted for most of these rises. The increases have also been accentuated by the tying of automatic social security and government pension benefit raises to increases in the consumer price index. This tying arrangement has contributed to the difficulties in controlling the federal government's so-called "entitlements programs" and in turn in controlling that portion of its massive deficit. The imbalance improved in 1984, as income from production outpaced transfer payments, but the earlier pattern returned in 1985. As a result, transfer payments as a portion of personal income increased slightly from 14.6% to 14.7%. This compares with levels around 11% in the early 1970's.

Disposable Income

More important in determining consumers' expenditures than total personal income is the amount of income over which individuals have discretion, specifically their income after taxes and other required payments to government. Personal tax and nontax payments for the year 1985 at $492.7 billion were 15.0% of total personal income (Table 8), the ratio being up from 1983 and 1984, but still lower than in 1981 and 1982. Remaining after taxes in 1985 was disposable personal income of $2,800.8 billion, up 4.9%.

TABLE 7

SOURCES OF PERSONAL INCOME, 1977-1985
(In billions of dollars)

Year	Wages Salaries and Related Income*	+	Proprietors' Income	+	Income from Rent, Interest and Dividends	+	Income from Transfer Payments**	Personal Contributions for Social Insurance	=	Effective Personal Income
1977.....	1,088.0		152.9		201.8		226.1	61.2		1,607.5
1978.....	1,227.0		176.2		234.8		244.0	69.8		1,812.4
1979.....	1,374.8		191.9		275.1		273.1	81.0		2,033.9
1980.....	1,510.4		180.7		331.4		324.7	88.6		2,258.4
1981.....	1,660.6		186.8		410.0		368.1	104.5		2,520.9
1982.....	1,749.7		175.5		447.2		410.6	112.3		2,670.8
1983.....	1,855.3		192.3		466.5		442.2	119.8		2,836.4
1984.....	2,028.3		233.7		527.6		454.7	132.4		3,111.9
1985.....	2,166.9		242.2		549.0		484.5	149.1		3,293.5

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

* Related income, which is called "other labor income" by the Department of Commerce, includes compensation for injuries, employer contributions under private pension and related programs, and other items such as the pay of military reservists and directors' fees.

** Transfer payments include benefit payments made under government (Federal, State and local) social security, unemployment and veterans' programs, and miscellaneous payments by business.

TABLE 8

DISPOSITION OF PERSONAL INCOME, 1977-1985
(In billions of dollars)

Year	Effective Personal Income	-	Tax and Nontax Payments	=	Disposable Personal Income	-	Personal Outlays	Personal Saving
1977.....	1,607.5		228.1		1,379.3		1,288.6	90.7
1978.....	1,812.4		261.1		1,551.2		1,441.1	110.2
1979.....	2,033.9		304.7		1,729.3		1,611.3	118.0
1980.....	2,258.4		340.5		1,917.9		1,781.1	136.8
1981.....	2,520.9		393.3		2,127.6		1,968.1	159.4
1982.....	2,670.8		409.3		2,261.4		2,107.5	153.9
1983.....	2,836.4		411.1		2,425.4		2,292.2	133.2
1984.....	3,111.9		441.8		2,670.2		2,497.7	172.5
1985.....	3,293.5		492.7		2,800.8		2,671.8	129.0

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

Real Income

One of the most frequently used measurements of the effect of price increases on income uses the Department of Commerce's price deflators to determine real income based on 1982 price levels. The derived rates of increase in personal income are shown in Chart 13. While total personal income in 1985 rose 5.8% and income after taxes rose 4.9% in current dollars, when adjusted for price changes by the personal consumption expenditures deflator, the rise in disposable personal income in 1985 was just 1.6%. When account is taken of population changes, 1985 real per capita disposable personal income at $10,483 (in 1982 dollars) was 0.7% higher than the $10,412 in 1983. This per capita increase is much smaller than the previous 4.6% increase.

Households and Families

The Census Bureau defines a household as "all of the persons who occupy a house, an apartment, or other group of rooms, or a room which constitutes a housing unit," whereas a family is defined as "a group of two or more persons related by blood, marriage or adoption and residing together." A family is thus essentially a sociological unit, whereas a household is an economic unit. It is the economic entity which is most often the primary unit of consumption for goods and services, especially housing, household services, consumer durables, and also frequently for food.

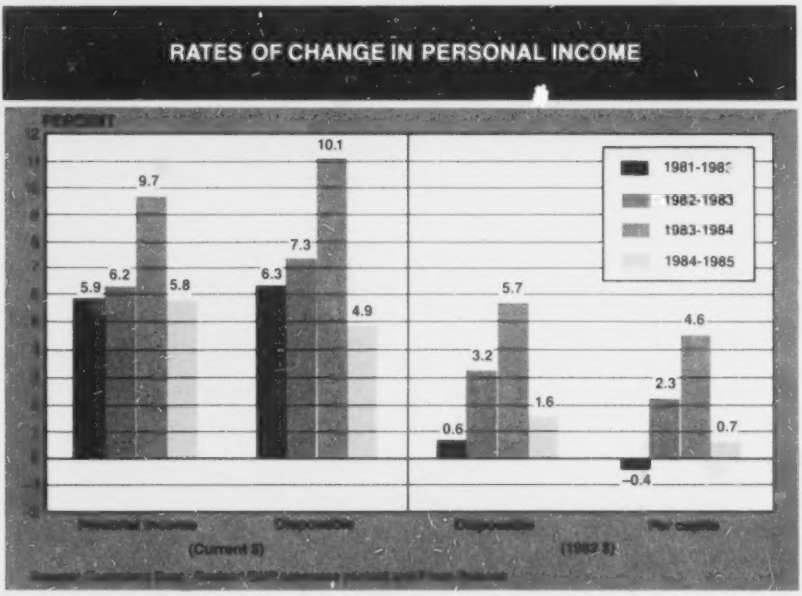
Household Income

Median household income (before tax and nontax payments) in the United States was $22,415 in 1984. Mean household income was $27,464 (Table 9).

As shown in Chart 14, household income tends to rise until the householder ("head of household") reaches late middle age, and to decline thereafter. Mean income in 1984 ranged from $16,644 for households in which the head was under 25 years of age to $36,003 for households headed by a person between 45 and 54 years of age, back down to only $18,279 for households in which the householder was 65 years of age or older (and most often retired).

Income also varies closely with education of the householder. The largest single educa-

CHART 13



tional group is that in which the householder has completed high school but gone no further in school. In 1984, this group comprised about 35% of all households; mean income was $25,698, just below the overall household average. At one extreme, where the householder had completed 4 or more years of college, 20.7% of the households had mean income of 156% of the average for all households. At the other extreme, where the householder had completed less than 8 years of school, 7.8% of the households, had mean income of only 50.4% of that for all households.

Other household characteristics that vary with average income, such as the number of persons in the household, type of residence, and region of the country are detailed in Table 9.

Family Income

The Census Bureau estimates that there were 62.7 million families in the United States in 1984 (Table 10). This compares with the estimated 87 million "households" referred to above.

Average family income, not surprisingly, tends to be higher than average household income, since households include various unrelated individuals in the base used to calculate the average(s). The median income of all families in the United States was $26,433 in 1984 and the mean was $31,052.

There have been in recent years gradual but widespread changes in family structure which have tended to exert a downward pressure on family income levels. Most significantly there has been a substantial increase in the proportion of families maintained by a female householder (from 1970 to 1984, for example, the percentage rose from around 10% to 16%). In fact, 48% of the increase in family households between 1980 and 1984 is attributable to families maintained by women. Since median incomes in this group are by far the lowest of all family types, growth in this group would exert a downward pressure on the overall average. The 1980's have also witnessed a sharp increase in the poverty rate for persons, from 11.4% in 1978 to 15.2% in 1983. The 1984 rate, however, declined to 14.4%.

CHART 14

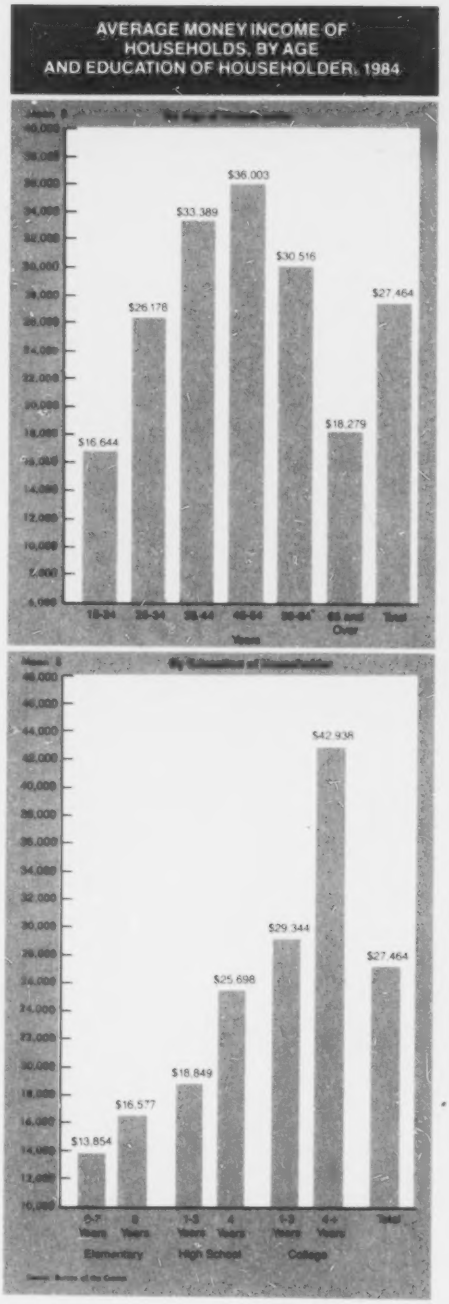


TABLE 9

SELECTED INCOME CHARACTERISTICS OF HOUSEHOLDS – 1984*

	Thousands of Households	Mean Household Income	Group's Share of Aggregate Income
All Households.....	86,789	$27,464	100.0%
Type of Household			
Male Householder.....	60,025	$31,952	80.5%
Female Householder...	26,763	$17,397	19.5%
Number in Household			
One.....	20,602	$15,327	13.2%
Two.....	27,389	$27,873	32.0%
Three.....	15,465	$31,983	20.8%
Four.....	13,631	$34,891	20.0%
Five or more.....	9,703	$34,439	14.0%
Type of Residence			
Nonfarm.....	NA	NA	NA
Farm.....	NA	NA	NA
Inside metropolitan area	NA	NA	NA
Outside metropolitan area	NA	NA	NA
Owner occupied	55,845	$32,055	75.1%
Renter occupied	30,944	$19,178	24.9%
Region			
Northeast.....	18,348	$28,645	22.1%
Midwest.....	21,697	$26,612	24.2%
South.....	29,581	$26,203	32.5%
West.....	17,163	$29,450	21.2%

Source: Bureau of the Census, AFSA

Note: Parts may not add to totals due to rounding.

* As of March 1985.

TABLE 10

DISTRIBUTION OF FAMILIES AND UNRELATED INDIVIDUALS BY TOTAL MONEY INCOME IN 1984

	Families		Unrelated Individuals	
	Thousands	Percent	Thousands	Percent
Total Money Income				
Under $5,000.....	3,144	5.0%	6,203	20.5%
$5,000 to $9,999.....	5,894	9.4%	7,491	24.7%
$10,000 to $14,999...	6,780	10.8%	5,225	17.3%
$15,000 to $19,999...	6,790	10.8%	3,882	12.8%
$20,000 to $29,999...	13,156	21.0%	4,317	14.3%
$30,000 to $39,999...	10,222	16.3%	1,726	5.7%
$40,000 to $49,999...	6,833	10.9%	700	2.3%
$50,000 to $59,999...	3,990	6.4%	326	1.1%
$60,000 to $74,999...	2,971	4.7%	205	0.7%
$75,000 and over.....	2,928	4.7%	194	0.6%
Total.....	62,706	100.0%	30,268	100.0%
Memo				
Median Income.....	$26,433		$11,204	
Mean Income.....	$31,052		$14,687	

Source: Bureau of the Census.

Note: Parts may not add to totals due to rounding.

*As of March, 1985.

5

DISPOSITION OF PERSONAL INCOME: CONSUMERS' SPENDING AND CAPITAL FORMATION

The spending decisions of consumers determine both the level and composition of U.S. economic output. One way of measuring this output, in fact the method used in the National Income and Product Accounts (NIPAs), calculates the total amount of final expenditures in the economy. By this measure, the gross national product, the value of goods and services produced, was $3,988.5 billion in 1985 (Table 11). As seen earlier (Chart 11), of the total GNP personal consumption expenditures amounted to around 64%.

The disposition of personal income is detailed in Chart 15 and in Table 12. Individuals' income is disposed of in three broad categories. Some portion automatically goes for taxes; in 1985 this portion constituted 15% of income ($492.7 billion). A large part is spent out-of-pocket for consumption and other purposes, the whole of which is known as personal outlays. The remainder is saved in various forms.

Personal Outlays

Personal outlays (defined by the Department of Commerce as including personal consumption expenditures, interest payments, by individuals and transfers abroad by individuals) rose nearly proportionately with disposable personal income during the 1960's. During recessions or pauses in growth when durable goods spending is greatly reduced, consumer outlays tend to drop off as a percent of disposable income and to increase again during strong recovery periods. Personal outlays as a portion of disposable personal income since 1970 have varied between 90.6% (1973) and 95.4%, a new high reached in 1985 as the economy experienced the third full year of recovery (albeit with growth less spectacular than in 1984).

Personal Consumption

Personal consumption expenditures, a portion of personal outlays, are that part of individuals' outlays that go for current purchase or consumption of goods and services (interest paid to business is here not considered purchase of a service). All current expenditures for food, clothing, rent, entertainment, travel, education and the like are considered personal consumption expenditures. In 1985, 96.7% of personal outlays were for personal consumption. The 6.6% increase in this sector was a major force in the continued growth during the year. Of the total, expenditures for durable goods comprised about 14%, a slightly larger share than last year. Expenditures for nondurables comprised about 35.3% of consumption spending, slightly less. Expenditures for services, by growing faster than total consumption, also grew as a share of that total, to 50.7%. Retail auto sales, a major component of consumer durables, rose to about 11.0 million units in 1985, up 6% from 1984. Even with the low-rate financing incentive plans offered by domestic auto finance companies, sales of domestic cars

rose more slowly (at 3.2%) than did sales of imports (16%), which made up almost 26% of retail sales. Sales of domestic cars had increased as a portion of total sales from 72% in 1982 to 76.5% in 1984.

Personal Saving

For all sectors, the portion of income neither paid in taxes nor spent ("outlayed") for consumption purpose constitutes saving. Since 1970, saving in the consumer sector has ranged from as much as 9.4% of disposable personal income (in 1973) to as little as 4.6%, a new low reached in 1985. Although this savings ratio has not been as low as the 1985 measure since 1947, it is still within the range of historical rates since 1929.

Individuals saved a total of $129 billion in 1985, 25% less than the $172.5 billion saved in 1984.

Consumer Prices

One factor that influences consumers' levels and patterns of spending is the prices of the goods that they purchase. The most common measure of general price levels for consumer goods is the Consumer Price Index, which is maintained by the Department of Commerce. The index measures the current price of a consistent "basket" of goods over time, showing the overall price level as a percent of the price for the same goods in a base year. The CPI uses 1967 as its base year. Table 13 shows the annual aver-

TABLE 11

GROSS NATIONAL PRODUCT, BY SECTOR, 1977-1985

		Personal Consumption Expenditures						
	Total GNP	Durable Goods	Non-durable Goods	Services	Total	Government Purchases	Domestic Investment	Net Exports
	(Billions of current dollars)							
1977	1,990.5	184.5	490.4	582.3	1,257.2	387.3	344.1	1.9
1978	2,249.7	205.6	541.8	656.1	1,403.5	425.2	416.8	4.1
1979	2,508.2	219.0	613.2	734.6	1,566.8	467.8	454.8	18.8
1980	2,732.0	219.3	681.4	831.9	1,732.6	530.3	437.0	32.1
1981	3,052.6	239.9	740.6	934.7	1,915.1	588.1	515.5	33.9
1982	3,166.0	252.7	771.0	1,027.0	2,050.7	641.7	447.3	26.3
1983	3,401.6	289.6	817.0	1,122.7	2,229.3	675.7	501.9	-5.3
1984	3,774.7	331.1	872.4	1,219.6	2,423.0	736.8	674.0	-59.2
1985	3,988.5	361.5	912.2	1,308.6	2,582.3	815.4	669.3	-75.8
	(Billions of constant 1982 dollars)							
1977	2,958.6	253.9	828.0	898.5	1,883.8	589.1	521.3	-35.5
1978	3,115.2	267.4	800.7	939.8	1,961.0	604.1	576.9	-26.8
1979	3,192.4	266.5	771.0	971.2	2,004.4	609.1	575.2	3.6
1980	3,187.1	245.9	764.4	991.9	2,000.4	620.5	509.3	57.0
1981	3,248.8	250.8	762.6	1,009.0	2,024.2	629.7	545.5	49.4
1982	3,166.0	252.7	766.6	1,027.0	2,050.7	641.7	447.3	26.3
1983	3,275.2	283.6	753.7	1,061.7	2,145.9	647.8	503.4	-21.9
1984	3,492.0	318.6	731.4	1,093.3	2,239.9	675.9	661.3	-85.0
1985	3,570.0	345.3	846.9	1,120.8	2,313.0	716.4	649.0	-108.4

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

age of the monthly index for urban consumers from 1970 to 1985, as well as the percent increase in the index from the end of one year to the next. The index increased less in 1985 than it had in any single year since 1972. In fact, the annual increases in the past four years have all been at or below 4%, well clear of the double-digit increases that wreaked such havoc in the late 1970's. Of course, it is important to realize that, just as price levels can influence consumer spending, the reverse is true i.e. that changes in spending (demand) due to factors other than the prices, can also lead to price changes.

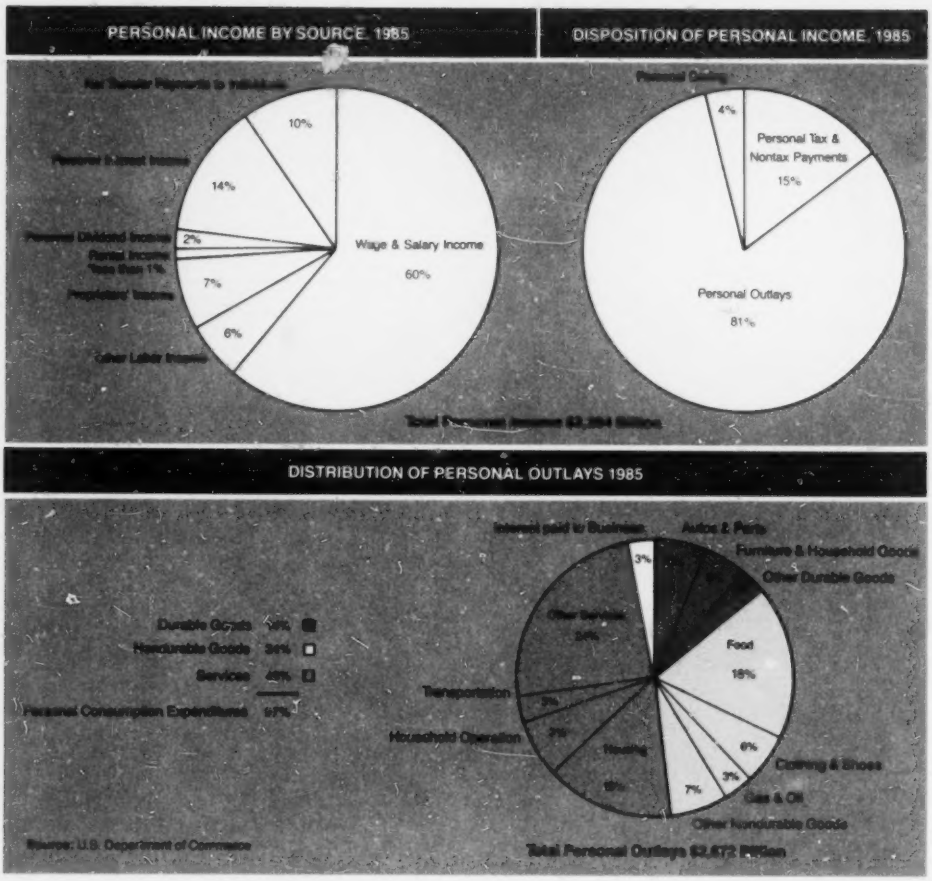
TABLE 12

PERSONAL INCOME AND ITS DISPOSITION, 1985
(In billions of dollars)

TOTAL PERSONAL INCOME	$3,293.5
Wages and Salary	1,960.5
Other Labor Income	206.4
Proprietors' Income	242.2
Rental Income	13.8
Dividend Income	78.9
Interest Income	456.3
Net Transfer Payments	335.4
DISPOSITION OF PERSONAL INCOME	
Personal Tax & Nontax Payments	492.7
Personal Outlays	2,671.8
Personal Consumption Expenditures	2,582.3
Durable Goods	361.5
Autos & Parts	168.4
Furniture, Household Goods	129.0
Other Durables	64.1
Nondurable Goods	912.2
Food	474.0
Clothing and Shoes	156.0
Gas & Oil	91.8
Other Nondurables	190.3
Services	1,308.6
Housing	403.1
Household operation	173.3
Transportation	87.0
Other Services	645.3
Interest paid to business	87.4
Personal transfer payments abroad	2.1
Personal Saving	129.0

Source: Department of Commerce.

CHART 15



Measuring Consumer Behavior

The importance of the consumer sector in overall economic activity, namely of consumers' spending and saving decisions has given rise to the development of indicators designed to measure with precision various characteristics of the consumer sector. With the aid of such indicators to measure changing consumer attitudes toward goods, services, credit, financial security, and changing family needs and values, these less tangible aspects of the consumer sector can be better followed and understood.

The University of Michigan's Consumer Sentiment Index is one such indicator. Chart 16 shows the index (plotted quarterly prior to 1978 and monthly thereafter) from 1972 through 1985. This index has tended to decline prior to previous downturns in the business cycle, and therefore may be useful in loosely predicting the future course of the economy. The index took a dip late in 1985 (when GNP growth slowed down considerably), but by the end of the year had risen again to 93.9% of its 1966 level, just above its average for the year and one point above its year earlier level. This year-long increase was much smaller than the 10-point increase during the prior 12 months, however.

Indexes of Consumer Financial Behavior, developed by the American Financial Services Association, highlight recent trends in consumer income and its uses (Chart 17). They thus assist in the task of projecting the effects of such trends in the overall economy

TABLE 13

CONSUMER PRICE INDEX FOR URBAN CONSUMERS (CPI-U)
(1967 = 100)

	Index Level (annual averages)	December to December Change
1970	116.3	5.5%
1971	121.3	3.4%
1972	125.3	3.4%
1973	133.1	8.8%
1974	147.7	12.3%
1975	161.2	7.1%
1976	170.5	4.9%
1977	181.5	6.8%
1978	195.4	9.0%
1979	217.4	13.2%
1980	246.8	12.4%
1981	272.4	8.9%
1982	289.1	3.9%
1983	298.4	3.8%
1984	311.1	4.0%
1985	322.2	3.7%

Source: Department of Commerce.

(Chart 17). In view of the department of Commerce's recent revisions of real-dollar measures to a base year of 1982, these indexes have also been revised to use a base year of 1982. Their levels are therefore quite different than those shown in earlier *Finance Facts Yearbooks* which were based on 1972 levels.

The indexes reveal personal income at 126% of its 1982 level in the last quarter of 1985, personal taxes at 124%, disposable income at 126% (keeping pace with total personal income) and personal saving at a low 75%. The indexes for consumer expenditures were: durables, 143%; nondurables, 120%; and services, 131%. The index for consumer installment credit grew very rapidly in 1985, and the index reached 166% by the end of the year.

Consumers as Capitalists

To the extent that they provide a large portion of the funds borrowed by commercial enterprises (through their saving and investment), consumers have become capitalists in the economic sense. In addition to their ownership of the means of production in the form of corporate stocks and bonds, they generally own the physical capital which is productive in that it satisfies their own needs for living quarters, transportation, household services and the like. (In 1984 almost 65% of all households owned the home in which they lived.).

Capital Formation

Capital formation (in physical terms) may be defined as the addition of property and goods that promote the production of other goods and services. In this sense, owner-occupied houses and durable goods purchased by consumers are similar in nature to investment by businesses. Net capital formation (capital formation after allowing for concurrent "consumption" of capital) as estimated in the Flow of Funds accounts in

CHART 16

1985 was approximately $334 billion (Table 14). Net capital formation by business approximated $142 billion and by consumers $192 billion—$89 billion for housing and $103 billion for other durables. Only consumers' net spending for durable goods (and therefore their total capital formation) was notably larger than in 1984.

In order to purchase capital items (homes, automobiles, television sets, refrigerators and other consumer durables) which require a large initial outlay, consumers often borrow, or "finance" such purchases, in order to pay over some period of time as they "consume" the services produced by the item. Thus, just as a corporation sells debentures to finance the purchase of goods-producing machines and just as the local school district may float a bond issue to build a school, consumers, in a similar manner, borrow to finance the purchase of capital goods. When financing this way, the corporation commits part of its future earnings to repayment of the debentures, the school district commits part of its future tax receipts to repayment of the bond issue, and the consumer commits part of his or her future income to repayment of a mortgage (when financing a home) or to repayment of installment credit (when borrowing for other purposes). The financial markets provide the mechanism for making funds available, by collecting savings which are then loaned out in financing such investment.

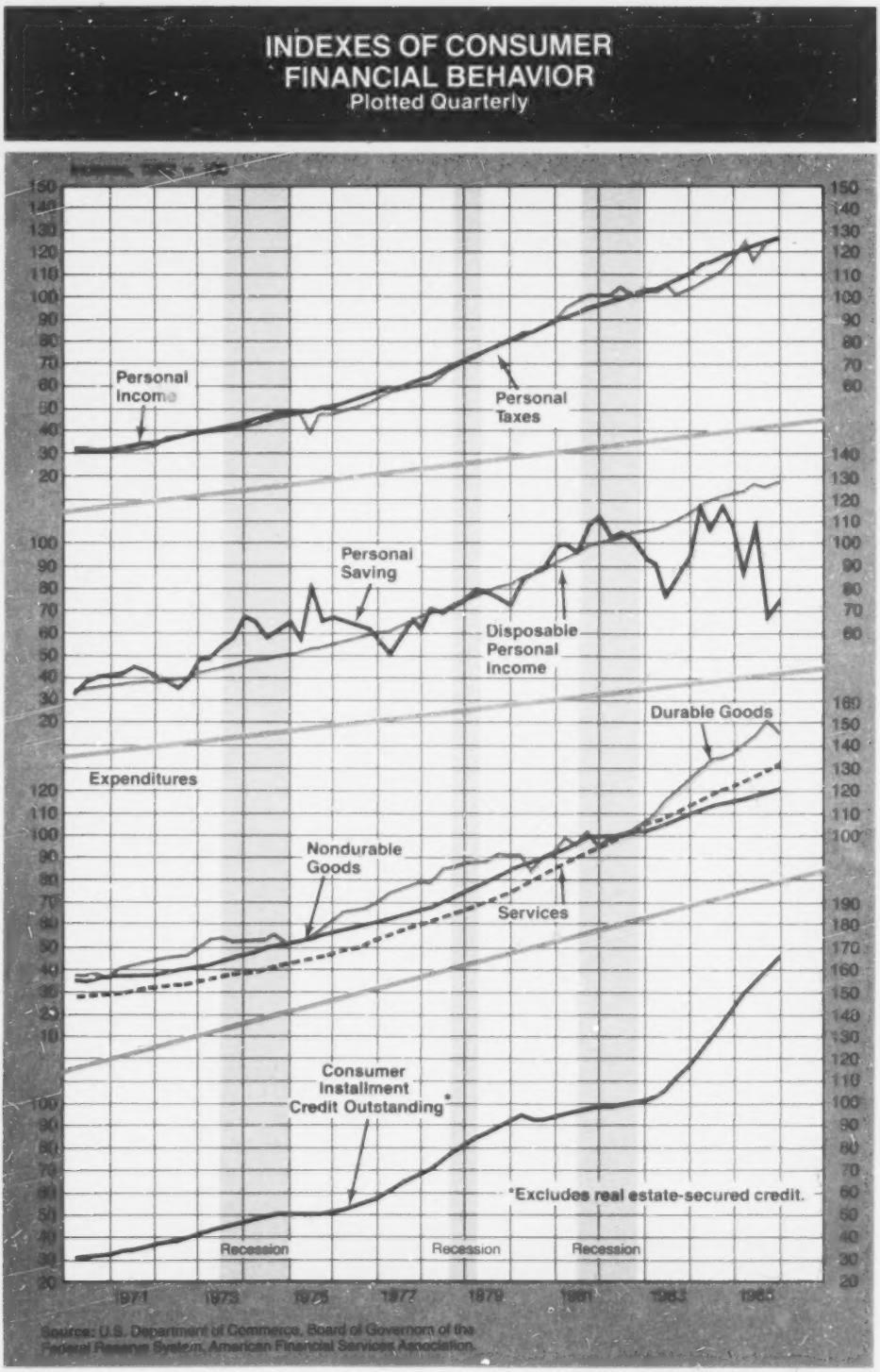
TABLE 14

CAPITAL FORMATION, 1980-1985
(In billions of dollars, seasonally adjusted annual rates)

	1980	1981	1982	1983	1984	1985
Gross Capital Formation.....	616.6	755.4	700.0	791.5	1,005.1	1,030.8
Business (Gross domestic investment minus household purchases of residences and condominiums).....	306.1	409.1	362.0	383.3	526.9	517.2
Consumer.....	310.5	346.3	338.0	408.2	478.2	513.6
Housing (Household purchases of residence and condominiums).....	95.8	106.4	85.3	118.6	147.1	152.1
Durables.....	214.7	239.9	252.7	289.6	331.1	361.5
Capital Consumption Allowances	475.1	550.4	598.6	625.9	659.3	696.5
Business (Capital consumption minus owned occupied homes)..	249.1	296.4	328.9	342.7	359.2	375.0
Consumer.....	226.1	253.9	269.7	283.2	300.1	321.5
Housing.....	44.1	51.4	54.3	56.9	59.7	63.4
Durables.....	182.0	202.5	215.4	226.3	240.4	258.1
Net Capital Formation.....	141.5	205.0	101.4	165.6	345.8	334.3
Business.....	57.0	112.7	33.1	40.6	167.7	142.2
Consumer.....	84.4	92.4	68.3	125.0	178.1	192.1
Housing.....	51.7	55.0	31.0	61.7	87.4	88.7
Durables.....	32.7	37.4	37.3	63.3	90.7	103.4

Source: Federal Reserve Flow of Funds Accounts Series.
Note: Parts may not add to totals due to rounding.

CHART 17


INDEXES OF CONSUMER FINANCIAL BEHAVIOR
Plotted Quarterly
Personal Income
Personal Taxes
Personal Saving
Disposable Personal Income
Durable Goods
Expenditures
Nondurable Goods
Services
Consumer Installment Credit Outstanding*
*Excludes real estate-secured credit.
Recession
Recession
Recession
1971
1973
1975
1977
1979
1981
1983
1985
Source: U.S. Department of Commerce, Board of Governors of the Federal Reserve System, American Financial Services Association.

6

CONSUMERS' ASSETS AND LIABILITIES: CONSUMERS AS FINANCERS

By virtue of the widely distributed discretionary spending power of consumers in the United States, this group, through its spending, saving and investing decisions, plays a significant role in determining the course and level of future economic activity in this country. Consumers' spending constitutes the largest portion of the demand for the output of this economy, as we have already seen. Through their saving and investment habits, consumers in the aggregate also provide a share of the funds borrowed by businesses to engage in production, and a good portion of the funds borrowed by governments as well. In addition, consumers finance government (although not at their own discretion) via taxes and contributions to social insurance funds (most notably the various Social Security programs).

In 1985, individuals were taxed and made payments to social insurance funds as required by law at a rate of 19.5% of their total income. This ratio had declined for 3 consecutive years before 1985, but increased from 18.5% most recently (Table 15). Taxes paid by individuals in 1985 of $493 billion in nominal dollars were 11.5% more than taxes paid in 1984. This increase was faster than that in income, raising the portion of income paid in taxes to 15%. Individuals' payments to social insurance funds also increased faster than did incomes, rising from $132 billion in 1984 to $149 billion in 1985, a 12.6% increase.

The Flow of Funds Accounts maintained by the Federal Reserve Board may be used to show the role played by various sectors in overall saving and investment in the economy. The consumer sector is represented in the Flow of Funds accounts as "households" and in this context the two terms will be used interchangeably. The household sector in the Flow of Funds series includes not only households but also nonprofit organizations serving individuals such as foundations, private schools and hospitals, labor unions, and charitable, welfare and religious organizations. The effect of the inclusion of these organization is minor, however, as their combined size is a tiny fraction of the whole.

The household sector's net saving in 1985 amounted to $299 billion, a decline of 8% over the year. The decline was due mostly to a 25% decline in personal saving (Table 16). A 14% increase in net durables in consumption counteracted the decline, however. Adding consumption of capital to net saving, gross saving declined slightly to $633 billion, following a 17% increase the prior year.

Households' total investment was also less in 1985 than in 1984, although by just 2.5%. Gross investment of $709 billion consisted of $534 billion in expenditures on capital goods and $175 billion in net financial investment.

The funds made available through households' net saving and financial investment might be termed their "discretionary" funding of government and business, in contrast to their nondiscretionary financing of government through taxes.

TABLE 15

FINANCING OF GOVERNMENT BY INDIVIDUALS 1980-1985
(In billions of dollars except as indicated by percent)

	1980	1981	1982	1983	1984	1985
Federal Government Receipts.....	553.8	639.5	635.3	658.1	725.1	784.7
State and Local Government Receipts*.....	301.3	337.7	365.5	401.5	446.2	476.3
Total Government Receipts....	855.1	977.2	1,000.8	1,059.6	1,171.3	1,261.0
Received from individuals:						
In billions of dollars..	429.1	497.8	521.6	530.9	574.2	641.8
Percent of total.....	50.2%	50.9%	52.1%	50.1%	49.0%	50.9%
Total Tax and Nontax Receipts of All Governments.....	638.6	725.9	731.3	768.8	846.1	906.1
Received from individuals:						
In billions of dollars..	340.5	393.3	409.3	411.1	441.8	492.7
Percent of total.....	53.0%	53.8%	55.9%	53.2%	52.5%	54.4%
Total Social Insurance Fund Contributions.....	216.5	251.3	269.5	290.8	325.2	354.9
Received from individuals:						
In billions of dollars..	88.6	104.5	112.3	119.8	132.4	149.1
Percent of total.....	43.5%	44.1%	44.3%	43.9%	43.3%	42.0%
Total Personal Income.....	2,258.4	2,520.9	2,670.8	2,836.4	3,111.9	3,293.5
Percent paid to government for:						
Taxes, etc.....	15.1%	15.6%	15.3%	14.5%	14.2%	15.0%
Social insurance funds	3.9%	4.1%	4.2%	4.2%	4.3%	4.5%
Total.....	19.0%	19.7%	19.5%	18.7%	18.5%	19.5%

Source: Department of Commerce.

Note: Parts may not add to totals due to rounding.
* Less Federal grants-in-aid to state and local governments.

TABLE 16

SAVING AND INVESTMENT BY HOUSEHOLDS, 1980-1985
(In billions of dollars, seasonally adjusted annual rates)

	1980	1981	1982	1983	1984	1985
Gross Saving.....	413.3	505.1	520.2	545.4	638.4	633.4
Net saving.....	180.0	241.3	240.0	250.9	326.4	299.4
Personal saving.....	110.2	159.4	154.0	133.2	172.5	129.0
Credit from government insurance.....	35.3	41.8	46.4	50.0	57.1	62.1
Capital gains dividends	1.8	2.7	2.4	4.4	6.0	4.9
Net durables in consumption....	32.8	37.4	37.3	63.3	90.7	103.4
Capital consumption....	233.2	263.7	280.3	294.5	312.1	334.0
Gross investment.....	468.8	556.1	591.6	585.4	727.3	709.0
Capital expenditures (homes, durables, etc)	323.6	362.0	354.9	428.0	498.8	534.1
Net financial investment....	145.2	194.1	236.7	157.4	228.5	174.9
Net acquisition of financial assets.....	273.1	316.5	331.6	355.7	465.4	477.2
Less net increase in liabilities.....	127.9	122.4	94.9	198.2	236.9	302.3
Discrepancy (Saving-Investment)....	-55.5	-51.0	-71.4	-40.0	-88.9	-75.6

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

Consumers as Debtors

Concurrent with their accumulation of assets, both real and financial, consumers as a group are also borrowers. Consumers' debt has been declining from over 32% of total credit market debt outstanding in the past several years. In 1985, households owed 29.8% of total credit market debt, or $2,376 billion (Table 17). Consumer debt increased faster than other debt during the 1950's. During late 1960's and early 1970's the debt of private business generally rose much faster than that of consumers or government. In 1985, the household sector's debt rose 14% over its 1984 level, slightly faster than the 13% increase that occurred during 1984. Business and overall government debt increased 13% and 19.5% respectively. Interestingly, the smaller state and local government debt aggregate grew faster (31%) than did federal government debt.

Consumers' Assets and Liabilities

Combining consumers' liabilities and assets, both real and financial, makes it possible to look at the "balance sheet position" of American households (Chart 18). Total financial assets of $10,101 billion and tangible assets of $5,100 billion brought total assets of the sector to just over $15 trillion. Tangible assets included the value of owner-occupied housing, the land on which it stands, and the value of durable goods.

TABLE 17

TOTAL DOMESTIC CREDIT MARKET DEBT OWED BY SECTOR
1980-1985
(In billions of dollars)

	1980	1981	1982	1983	1984	1985
PUBLIC SECTOR	1,316.3	1,457.7	1,709.9	2,001.8	2,320.2	2,771.7
U.S.Government.....	742.8	830.1	991.4	1,177.9	1,376.8	1,600.4
State and Local Governments.....	296.9	303.6	329.6	367.2	412.2	540.7
U.S. Government Related Financial Sectors	276.6	324.0	388.9	456.7	531.2	630.6
PRIVATE SECTOR.....	3,129.1	3,448.6	3,665.1	4,005.6	4,589.9	5,205.5
Business.....	1,678.5	1,874.8	2,009.8	2,162.8	2,508.5	2,829.4
Financial Business	245.2	286.8	304.8	326.5	389.8	478.8
Nonfinancial Business	1,433.3	1,588.0	1,705.0	1,836.3	2,118.7	2,350.6
HOUSEHOLDS (Consumer Sector)*..	1,450.6	1,573.8	1,655.3	1,842.8	2,081.4	2,376.1
TOTAL DOMESTIC CREDIT MARKET DEBT.....	4,445.4	4,906.3	5,375.0	6,007.4	6,910.1	7,977.2
Households' Portion of Total Domestic Credit Market Debt	32.6%	32.1%	30.8%	30.7%	30.1%	29.8%

Source: Federal Reserve Board

* Includes Personal Trusts and Nonprofit Organizations.

TABLE 18

BALANCE SHEET OF THE HOUSEHOLD SECTOR 1981-1985
(End of period in billions of dollars)

	1981	1982	1983	1984	1985
1. Financial Assets (Subtotal)....	7,119.1	7,705.4	8,503.9	9,123.9	10,100.9
a. Demand Deposits and Currency	295.6	311.7	350.8	373.8	418.9
b. Time and Savings Account....	1,348.9	1,482.6	1,684.6	1,912.9	2,050.0
c. Money Market Fund Shares....	181.9	206.6	162.5	209.7	207.5
d. Life Insurance and Pension Fund Reserves.....	1,167.0	1,354.3	1,557.2	1,681.3	1,959.8
e. Government Securities (State and Federal).....	375.0	409.3	490.7	605.9	760.4
f. Corporate and Foreign Bonds.	49.2	57.8	52.5	67.7	74.7
g. Corporate Stock at Market Value.....	1,134.7	1,275.4	1,458.6	1,493.0	1,843.0
h. Equity in Noncorporate Business.....	2,325.7	2,348.3	2,479.2	2,510.8	2,476.7
i. Other Financial Assets (net)	241.1	259.4	267.8	268.8	309.9
2. Tangible Assets 1/(Subtotal)....	4,258.0	4,165.3	4,611.8	4,891.2	5,099.8
a. Owner-occupied housing.....	2,062.1	2,017.5	2,185.7	2,308.3	2,377.8
b. Owner-occupied Land 2/.....	783.6	685.9	874.3	923.3	951.1
c. Consumer Durable Goods.....	1,096.5	1,141.7	1,206.9	1,293.5	1,395.2
d. Other Tangible Assets 3/...	315.8	320.2	344.9	366.1	375.7
3. TOTAL ASSETS.....	11,377.1	11,870.7	13,115.8	14,015.1	15,200.7
4. TOTAL LIABILITIES.....	1,633.9	1,722.4	1,920.6	2,156.9	2,459.1
a. Home Mortgages.....	1,023.0	1,064.5	1,174.7	1,304.1	1,453.3
b. Consumer Credit.....	398.5	418.1	474.7	569.5	673.1
c. Bank Loans, Insurance Loans, etc.....	212.4	239.8	271.2	283.3	332.7
5. NET WORTH (Line 3 minus Line 4).	9,743.2	10,148.3	11,195.2	11,858.2	12,741.6

Source: Federal Reserve Board.

Note: Parts may not add to totals due to rounding.

*Includes households, personal trusts and non-profit organizations.

1/ Tangible Assets at current cost.
2/ The estimated value of land of the "owner-occupied housing."
3/ Primarily of non-profit organizations.

Credit market debt (as discussed above) combined with other miscellaneous liabilities adds to total liabilities of $2.5 trillion (Table 18). Subtracting liabilities from assets yields the net worth, or wealth of the household sector. In 1985, household net worth was estimated at $12,742 billion, up 7.7% from 1984. Liabilities again increased at a faster rate than did assets (14% vs 8.5%) causing various ratios of assets to liabilities to fall slightly (Table 19).

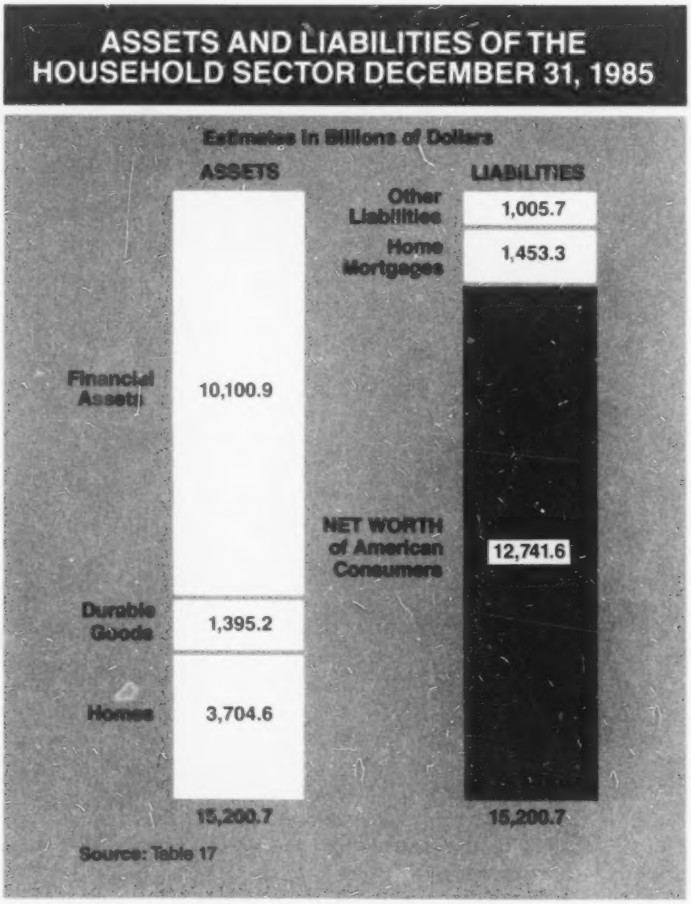
TABLE 19

CONSUMERS' ASSET TO DEBT RATIOS
END OF PERIOD, 1981-1985

	1981	1982	1983	1984	1985
Ratio of:					
Assets to debts excluding home ownership.....	14.0	13.9	13.5	12.6	11.8
Home ownership to mortgage debt.....	2.8	2.5	2.6	2.5	2.3
All assets to all debts.....	7.0	6.9	6.8	6.5	6.2
Percent of owners' equity in all assets.....	85.6%	85.5%	85.4%	84.6%	83.8%

Source: Table 17

CHART 18



7

CONSUMERS' BORROWING AND USE OF FINANCIAL SERVICES

It is a rare coincidence that the purchase of expensive items, especially capital goods, can be financed using the accumulated savings of the purchaser, whether the purchase be a government, a business or a household. Just as businesses use commercial credit or issue bonds to finance the purchase of capital goods, so do consumers finance the purchase of tangible assets, homes and consumer durable goods through home mortgages and various other forms of credit. These consumer liabilities will be examined in this chapter.

Consumer Credit

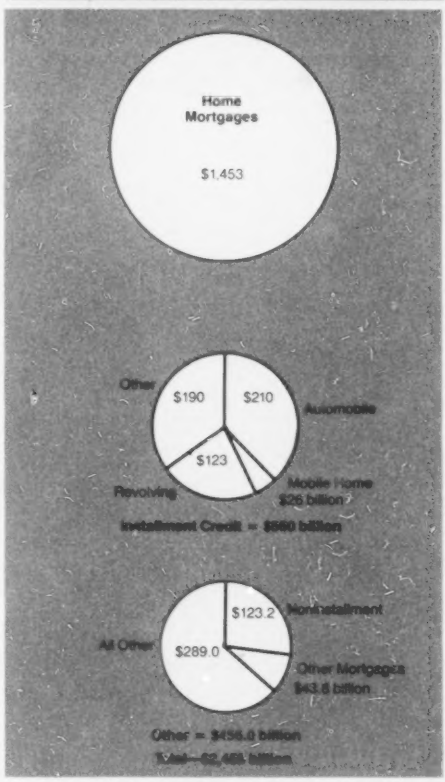
As shown in Chart 19, consumers' direct borrowings amounted to almost $2.5 trillion at the end of 1985. Approximately 60% of households' indebtedness was in the form of home mortgages. About 22% was in the form of installment consumer credit, defined by the Federal Reserve as "most short-end intermediate-term credit extended to individuals through regular business channels, usually to finance the purchase of consumer goods and services or to refinance debts incurred for such purposes, and scheduled to be repaid (or with the option of repaying) in two or more installments." About 5% of consumer debt was noninstallment consumer credit.

Noninstallment Credit

The major categories of noninstallment consumer credit, which is generally of a convenience nature, are single payment

CHART 19

TYPES OF CONSUMER INDEBTEDNESS OUTSTANDING, YEAR-END 1985
(in billions)



loans from commercial banks, and service credit which represents debts payable to hospitals, physicians, dentists, etc. At the end of 1985 outstanding noninstallment credit was estimated to be about $123 billion.

Consumer Installment Credit

At year-end 1985, consumer installment credit outstanding totaled $543 billion, according to the Federal Reserve Board's Mortgage and Consumer Finance section (Table 20). During the 1970's, increases varied between $2.8 billion in 1970 and $41 billion in 1978. The 1985 increase, at $82.4 billion, was the largest ever and almost double the size of the increase during the previous year. The corresponding rate of increase of 18% (Table 21) was not quite as rapid as in the previous year, however.

TABLE 20

CONSUMER INSTALLMENT CREDIT OUTSTANDING AND NET CHANGE BY TYPE 1980-1985
(In billions of dollars)

	1980	1981	1982	1983	1984	1985
OUTSTANDING AT YEAR END - TOTAL	301.4	318.2	335.0	383.8	460.8	543.2
Automobile						
Commercial Banks	61.5	58.1	59.6	67.6	83.9	92.7
Finance Companies	29.7	39.7	44.1	50.0	54.6	73.4
Revolving						
Commercial Banks	29.8	32.9	36.7	44.2	60.5	76.9
Retailers	24.3	27.2	28.9	33.9	36.7	38.3
Gasoline Companies	4.5	4.4	4.1	4.1	4.3	4.3
Mobile Home						
Commercial Banks	10.4	10.2	9.6	9.8	9.6	9.6
Finance Companies	5.2	6.4	9.2	9.5	9.2	9.2
Other						
Commercial Banks	45.3	46.5	46.7	50.4	57.5	64.5
Finance Companies	28.4	26.2	24.9	27.9	32.9	38.3
Retailers	4.4	4.1	3.5	3.7	4.1	4.7
NET CHANGE DURING YEAR - TOTAL	1.1	16.9	16.7	48.9	77.0	82.4
Automobile						
Commercial Banks	-5.8	-3.5	1.5	8.0	16.3	8.8
Finance Companies	6.9	10.1	4.4	5.9	4.6	18.7
Revolving						
Commercial Banks	-0.1	3.1	3.8	7.5	16.4	16.3
Retailers	0.1	2.9	1.7	5.0	2.8	1.6
Gasoline Companies	0.7	-0.1	-0.3	0.1	0.2	0.0
Mobile Home						
Commercial Banks	-0.3	-0.2	-0.6	0.2	-0.2	0.0
Finance Companies	0.7	1.2	2.7	0.4	-0.3	0.0
Other						
Commercial Banks	-1.0	1.1	0.2	3.7	7.1	7.0
Finance Companies	-0.9	-2.2	-1.3	3.0	5.0	5.4
Retailers	-0.3	-0.3	-0.6	0.2	0.4	0.6

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

Due to changes in the data series made available by the Federal Reserve Board, the credit types and lender categories discussed here have been changed slightly. Lenders in the two classes previously described as "Savings and Loan Associations" and "Mutual Savings Banks" have now been combined as "Savings Institutions". Additionally, not all series for types of credit are available. The tables in this chapter and the next reflect these changes.

Of the consumer installment credit outstanding at the end of 1985, 45% was held by commercial banks, 22% by finance companies, 14% by credit unions, 8% by retailers, 10% by savings institutions and less than 1% by gasoline companies.

TABLE 21

CONSUMER INSTALLMENT CREDIT, BY TYPE AND HOLDER, 1985
(In millions of dollars)

	Outstanding Year-end 1984	Net Change 1985	Outstanding Year-End 1985	Percent Increase during 1985
Total Installment Credit.....	460,822	82,401	543,223	17.9%
Commercial Banks.....	211,606	32,107	243,713	15.2%
Finance Companies.....	96,747	24,095	120,842	24.9%
Credit Unions.....	67,070	8,656	75,726	12.9%
Retailers.....	40,773	2,298	43,071	5.6%
Savings Institutions.....	40,311	15,256	55,567	37.8%
Gasoline Companies.....	4,315	-11	4,304	-0.3%
Automobile				
Commercial Banks.....	83,901	8,784	92,685	10.5%
Finance Companies.....	54,632	18,745	73,377	34.3%
Revolving				
Commercial Banks.....	60,549	16,339	76,888	27.0%
Retailers.....	36,650	1,649	38,299	4.5%
Gasoline Companies.....	4,315	-11	4,304	-0.3%
Mobile Homes				
Commercial Banks.....	9,650	-47	9,603	-0.5%
Finance Companies.....	9,243	-43	9,200	-0.5%
Other				
Commercial Banks.....	57,506	7,031	64,537	12.2%
Finance Companies.....	32,872	5,393	38,265	16.4%
Retailers.....	4,123	649	4,772	15.7%

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

Rates of Charge

Annual interest rates charged by finance companies on purchased retail automobile paper in December 1985 averaged 12.52% for new cars (down significantly from 15.24% in December 1984) and 17.22% for used cars, also down slightly. The average rate on new car contracts for the year, however, was even lower (11.9%), due to the incentive programs offered by the auto finance companies periodically throughout the year. The most frequent rate charged on direct loans by banks to consumers to finance new automobiles over a 48 month period in the first week of November 1985 was 12.39%. Most of the financing by retailers is in the form of revolving credit at rates probably approximating the rate on bank credit cards which averaged 18.57% in November 1985. The rate for November 1984 had averaged 18.82%.

Surveys of Consumer Finances

During this century, consumers have been surveyed frequently, if irregularly, by various parties interested in collecting information on their "consumption" of financial services. Such information has been of interest to many groups, among them government bodies seeking to create legislation and regulation for the consumer financial services industry; the industry itself, seeking to market its services to individuals; economists; and others.

The Federal Reserve first sponsored a survey of consumer finances just after World War II. Surveys were conducted by the Survey Research Center of the University of Michigan annually from 1947 through 1970, but then were discontinued. In 1977, balance-sheet data were collected as part of a survey of consumer credit sponsored by various federal banking agencies.

The interview questionnaire for this survey probed two significant aspects of consumer credit. First, it explored use by consumers of different types of credit, updating the *Surveys of Consumer Finances* undertaken by the Survey Research Center until 1971. Second, it measured consumers' awareness, understanding, attitudes and behavior regarding credit and its regulation, a largely unresearched area previously. Authored by Thomas A. Durkin and Gregory E. Elliehausen and published by the Federal Reserve Board as the *1977 Consumer Credit Survey*, the report examines lines of direct and indirect questioning used to gather information about the variables, as well as the responses obtained. Chapters 2 and 10 examine the responses to questions on consumer credit protection legislation. Chapters 11 to 21 review consumers' income, assets, debts, and housing; they also update many of the tables from the earlier *Surveys of Consumer Finances*.

In 1983, the Board of Governors of the Federal Reserve System, the United States Department of Health and Human Services, and five other federal agencies joined together to sponsor the 1983 Survey of Consumer Finances . The earliest results of this project became available to the public in late 1984. To date, two articles summarizing certain findings of the survey have appeared in the September and December, 1984 issues of the *Federal Reserve Bulletin*. In the first of these two articles, the authors note that, "(T)he recent survey provides a unique opportunity to link data on consumer assets and liabilities, income, and financial behavior."

The 1983 survey examined the collective "financial position" of American consumers by estimating the debt obligations and asset holdings of a nationally representative sample of American families. By collecting further details on these obligations and holdings, more specific information on consumers' use of financial institutions and products was obtained.

Between February and July of 1983, 3,824 families (defined as "includ(ing) all persons residing together in the same dwelling who are related by blood, marriage, or "adoption"...and..."include(ing) one-person units as well as units of two or more persons") agreed to grant personal interviews. The interviews included questions covering balance sheet items as of the interview date, and income from the previous year (1982).

Respondents were "encouraged to consult other family members and financial records in an effort to obtain complete and accurate responses."

Home equity was found to be the largest asset of many homeowners, who comprised 64% of all families surveyed. Overall mean net equity in nonfarm homes was $56,133, although it varied considerably with household characteristics such as income, age, race, and life cycle stage.

Checking accounts were the most common financial asset, owned by 79% of families. The median checking account balance was $500. Savings accounts were the next most common financial asset, being maintained by 65% of families. Liquid assets other than checking and savings accounts were more popular than they had been in earlier years, presumably due to regulatory changes since the previous consumer surveys making available new deposit instruments and an associated increased willingness among savers to diversify. Certificates of deposit and savings bonds were held by more than one fifth of the surveyed families. Money market accounts and the less liquid retirement accounts were held by 14% and 17% respectively.

Nondeposit financial assets (stocks and bonds) were not as widely held, although 19% of the sample group owned stocks in amounts averaging just over $4,000. Furthermore, it was discovered through questions regarding the content of stock portfolios and the frequency of transactions that most of these stockholders were neither diversified in their holdings nor were they active traders. For owners of all non-liquid financial assets, and especially those with bonds and non-taxable holdings such as municipal issues, the median amount of total financial assets was well above the median for all families, which was $2,300. These and other survey results indicate that ownership of financial assets is highly concentrated among a small group of families.

The survey data provide detailed information on some financial characteristics of families with certain types of liabilities (Table 22). Looking first at the frequency of various liabilities, only 37% of families had mortgage debt outstanding (although 64% of families were homeowners). A larger portion of families, 62%, had some type of consumer credit outstanding, including credit from finance companies, retail stores, banks, savings & loans, credit unions, and other sources. 42% of families had bank credit cards, while 10% had travel and entertainment (T&E) cards.

The mean amount of consumer credit outstanding among all families was $5,400, but the median amount was only $2,382, indicating a high occurrence of small amounts outstanding. This conclusion is borne out in the distributions shown in Table 23.

Consumers whose main checking account was at a commercial bank tended to have slightly larger amounts of consumer installment credit outstanding than those with checking accounts elsewhere (not shown in table). Those with main checking accounts at credit unions were the most likely to have consumer debt outstanding, regardless of amount. This situation presumably arises primarily because of the nature and purpose of the credit union as a financial institution.

Families with checking account balances below $2,500 were much more likely to owe both mortgage debt and non-mortgage consumer debt than were families with larger checking account balances. However, families maintaining small account balances averaged only $5,466 in consumer debt outstanding, compared with $14,305 for those with larger checking account balances.

Owners of money market deposit accounts, money market mutual fund shares, and brokerage accounts all had higher average consumer credit balances outstanding than the mean consumer debt among all families. Among these 3 groups, however, money market deposit holders had much smaller consumer credit balances outstanding (averaging $7,266) than did money market mutual fund an brokerage account owners, whose consumer credit balances averaged $12,370 and $10,635 respectively.

Among credit card users, holders of cards other than bank cards (i.e. gasoline, T&E, proprietary retail, and other credit cards) were likely also to hold bank cards. Among each of the groups of cardholders, between

TABLE 22

SELECTED CHARACTERISTICS OF FAMILIES USING FINANCIAL SERVICES, 1983

	Percent of all families	Credit Card Holders		Have mortgage debt	Have consumer debt*	Amount of Consumer Debt**	
		Bank	T & E			Mean	Median
						(dollars)	
Average balance in main checking account:							
Less than $2,500....	71	50	11	44	69	5,466	2,751
$2,500 or more.....	8	56	21	29	39	14,305	4,011
Other financial services used and financial characteristics:							
Money market deposit account...	8	65	17	41	48	7,266	3,175
Money market mutual fund account	6	80	30	49	70	12,370	4,000
Brokerage account...	7	82	30	54	64	10,635	4,000
Nonliquid financial assets.	23	68	20	49	64	8,047	3,648
Saving and investment advice	26	52	15	40	62	7,525	2,614
Type of credit card held:							
Gasoline.....	28	77	22	51	74	7,667	4,002
Bank.....	42	100	18	53	77	6,873	3,321
T & E.....	10	80	100	62	80	11,147	5,345
National retailer...	48	65	14	52	76	5,778	3,100
Other retailer.....	37	69	18	50	75	6,164	3,000
Other.....	5	80	40	54	81	9,436	3,391
Source of outstanding credit:							
Commercial Bank.....	19	54	14	51	100	7,869	4,430
S&L or Savings Bank.	3	56	16	60	100	6,409	4,365
Credit Union.....	7	60	13	63	100	6,274	4,705
Finance Company.....	12	44	9	46	100	6,927	4,183
Store.....	7	37	9	40	100	5,533	1,940
All Families.....	100	42	10	37	62	5,400	2,382

* Includes credit card, other installment, and non-installment credit.
** Covers only families that have such debt.

Source: Board of Governors of the Federal Reserve System.

65% and 80% also held bank cards. Such was not the case for T&E cards, which were held by between only 14% and 40% of families having other credit cards.

By types of lending institutions, average amounts of credit reported owed by consumers appear quite homogeneous, not only as measured by mean but also by median amounts (the latter with the exception of consumer debt at retail establishments). It should also be noted that the disparity between the mean and median amounts of consumer debt reported by interviewees for all families is largely due to the even larger dis-

TABLE 23

DISTRIBUTION OF CONSUMER DEBT OUTSTANDING, SELECTED YEARS
(Percent of families with such debt)

	Current dollars			Constant dollars		
	1970	1977	1983	1970	1977	1983
Amount of consumer credit outstanding (dollars)						
None	46	37	18	46	37	38
1-499	20	15	13	11	12	13
500-999	9	10	6	5	6	6
1,000-1,999	12	11	9	9	10	9
2,000-2,999	6	8	6	5	6	6
3,000-4,999	5	11	9	9	10	9
5,000-7,400	2	5	7	6	9	7
7,500 and more	1	4	12	8	11	12
Total	100	100	100	100	100	100
Mean (dollars) *	1,438	2,713	5,400	3,686	4,450	5,400
Median (dollars) *	858	1,599	2,382	2,199	2,622	2,382

* Averages only among families that have such debt.

Source: Federal Reserve Board

parity between mean and median amounts at "stores," which includes dealers. For financial institutions alone, the mean and median are actually quite close.

Incidence of Consumer Credit Usage

The 1983 survey found that 59% of all families owed no consumer installment debt. Exactly one-quarter of all families had installment debt payments (excluding home mortgages) of less than 10% of family income; 11% had payments of 10-19%, and 5% had payments of 20% or more (Table 24).

The study also shows the level of commitment for installment debt repayment by age of the family head. 25% of the families in which the family head was under 25 had 10% or more of their disposable income committed to repayment of installment credit. This percentage dropped to 22% for the 25 to 34 year age group, 20% for the 35 to 44, 17% for the 45 to 54 year, and 13% for the 55 to 64 year age groups. Only 7% of those in the 65 to 74 year age group, and 4% of those 75 years of age and over had 10% or more of their previous years' disposable income committed to repayment of installment credit in 1983.

Repayments as a percent of disposable income vary also by income level of spending unit. For the low income levels (under $5,000 per year), 84% of households had no installment payments in mid-1983 and another 3% had payments of under 10% of disposable income. Of these lower income families, most who did owe installment debt did so at levels greater than 20% of income. Among families with income of $50,000 and over, 53% had no installment payments and 39% had payments of less than 10% of disposable income. Families with incomes between $40,000 and $50,000 were the most likely to be credit users, over 58% of these families owing some installment cred-

it in 1983. In contrast to the relatively high levels of debt burden among low-income installment borrowers, the majority of high-income borrowers made payments of less than 10% of income.

TABLE 24

RATIO OF MONTHLY INSTALLMENT DEBT* PAYMENTS IN 1983
TO FAMILY INCOME IN 1982,
BY SELECTED FAMILY CHARACTERISTICS
(Percent of family income)

	No Debt	Less than 10%	10% to 19%	20% or more	Total
All Families	59	25	11	5	100
Age of Family Head (years)					
Under 25	55	21	16	9	100
25-34	45	34	15	7	100
34-44	45	36	14	6	100
45-54	51	31	12	5	100
55-64	68	18	9	4	100
65-74	86	7	4	3	100
75 and over	94	2	2	2	100
Family Income (dollars)					
Less than 5,000	84	3	3	10	100
5,000-7,499	79	7	4	10	100
7,500-9,999	65	14	12	9	100
10,000-14,999	66	14	13	7	100
15,000-19,999	56	21	17	6	100
20,000-24,999	51	27	18	5	100
25,000-29,999	50	31	16	3	100
30,000-39,999	44	45	10	1	100
40,000-49,999	42	47	9	2	100
50,000 and more	53	39	8	1	100

Source: Federal Reserve 1983 Survey of Consumer Finances.
Note: Parts may not add to totals due to rounding.
* Does not include noninstallment credit.

8

THE CONSUMER FINANCE INDUSTRY

Definition

The consumer finance industry is here defined as including corporations, partnerships or proprietorships whose primary purpose is to provide credit to consumers. Both direct and indirect financing means are included.

Institutions specializing in this business are generally known as consumer finance companies, sales finance companies, industrial banks and industrial loan companies. At the end of 1985, such companies held $121 billion in installment credit outstanding, approximately $73 billion in automobile credit, $9 billion in mobile home credit, and $39 billion in personal loans and credit to finance the purchase of other consumer goods and home improvements.

Many institutions are involved in financing consumers' purchases of goods and services. Commercial banks offer various types of consumer credit, including auto and personal installment loans as well as bank card accounts. Most savings institutions also offer some form of personal loan as an adjunct to their major role of financing homes, and credit unions have as one of their major functions the granting of loans to members. Each of these institutions, however, also has a collateral role—that of accepting time and/or savings deposits as a major method of obtaining the funds to be loaned out. Retail outlets also make credit available to their customers as a convenience but do not take in deposits to fund this activity directly. Consumer finance companies therefore are the only institutions whose primary role is to make installment credit available to consumers. Accordingly, retailers as a group, and most depository financial intermediaries (including commercial banks, savings and loan associations, and credit unions), which have the dual functions of receiving funds from savers and lending to borrowers, are not included in the following discussion of the consumer finance industry. Finance company subsidiaries of bank, insurance, and other holding companies are included.

Industrial banking companies or Morris Plan companies (known variously as thrifts, industrial loan companies and other titles) which operate in 20 states are permitted to, and some do, accept consumers' savings deposits in various forms (thrift certificates and investment certificates are two examples). Those industrials which accept deposits or deposit-like instruments are, in a real sense, depository financial institutions although they are usually grouped with finance companies because their charters are most frequently held by subsidiaries of finance companies and they are in many cases regulated by a state consumer credit administrators.

Size and Ownership

Finance companies vary in size and ownership from single office independently owned and operated companies to large chain companies with hundreds of offices across the country. Some medium-size and

large companies are independently owned, others are subsidiaries of manufacturers, bank holding companies, insurance companies, or conglomerate firms. Alternatively, some companies themselves have insurance and retail subsidiaries, some offer commercial financing in addition to consumer financing, some have manufacturing subsidiaries and some have subsidiaries which operate in Canada and overseas.

Market Size and Growth

Until well into the 1960's, finance companies were generally highly specialized and could be distinguished as consumer finance companies, sales finance companies or commercial finance companies. However, by the late 1970's, most large and medium-size, and many small finance companies had become more diversified, both as to lending (assets) and as to sources of funds (liabilities). During the 1970's, diversified giants from outside the industry recognized finance companies as well-managed profit centers and many finance companies were acquired by such conglomerates. Also, the passage of the Bank Holding Company Act amendments of 1970 provided the legal basis for bank holding companies to increase their acquisitions of finance companies.

Table 25 shows consumer and business financing by finance companies since 1980. At the end of 1985, consumer receivables constituted 44% of the $274 billion in receivables, while business credit in the amount of $153 billion constituted 56%. This distribution is quite different from the 52% and 48% reported in 1983 and earlier years, in large part because of a statistical redefinition by the Federal Reserve Board which now excludes real estate-secured personal loans (generally second mortgages) from consumer credit. When the estimated amount of second mortgage personal loans outstanding at finance companies at the end of 1985 ($30 billion) is included as consumer credit, the distribution between consumer and commercial credit outstanding becomes an even 50-50 for 1985. Either way, the 1985 figures show a more even distribution than in 1984.

During the first half of the 1970's, the percentage of total consumer installment credit held by finance companies declined from 26.1% at the end of 1970 to less than 20% in the late 1970's. The market share of finance companies in consumer credit has been affected quite a bit by the above-mentioned revision (regarding second mortgages). According to the new data, in 1980 it stood at 21%, rose until 1982 to 23.3% and has fallen in both 1983 and 1984, when it was again an even 21%. The reversal from the late 1970's reflected the entry of finance companies into new markets (especially large loans secured by real property and, to a lesser extent, open-end credit) and greatly increased penetration in automobile credit during the difficult economic period of 1980-82 that led to bank and credit union retreats from the market. The 1983 and 1984 declines in the consumer market share of finance companies is at least partly explained by renewed interest on the part of these other institutions in auto credit markets during periods of economic expansion. Once again in 1985 it was in auto credit that much of the change took place. Finance companies' market share increased to 22.2%, largely due to a 34% increase over the year in the amount of finance company auto credit outstanding. The auto finance companies spent much of the year offering "incentive programs," or extremely low interest rates, on loan contracts for the purchase of certain new car models. Clearly, the effect was to increase both auto sales and associated credit extensions.

Lines of Consumer Business

At the end of 1985, the $120.8 billion in consumer installment credit held by finance companies consisted of approximately $73.4 billion in retail automobile paper (61%), $9.2 billion in mobile home credit (7%) and $38.3 billion in other forms of consumer installment credit (32%) (Table 25). Although the previously available series for the amount of personal loans outstanding at finance companies has been discontinued, AFSA estimates that of the $120.8 billion in consumer credit, around

TABLE 25

RECEIVABLES OUTSTANDING AT FINANCE COMPANIES, BY TYPE, 1980-1985
(In billions of dollars)

	1980	1981	1982	1983	1984	1985
Receivables Outstanding						
Total	153.5	172.7	179.5	200.8	231.9	273.6
Consumer Credit - Total	63.2	72.4	78.1	87.4	96.7	120.8
Automobile	29.7	39.7	44.1	50.0	54.6	73.4
Mobile Home	5.2	6.4	9.2	9.5	9.2	9.2
Other	28.3	26.1	24.9	27.9	32.9	38.3
Business Credit - Total	90.3	100.3	101.4	113.4	135.2	152.8
Automobile	27.1	27.2	26.5	33.0	42.2	52.9
Other than Automobile	63.2	73.1	74.9	80.4	93.0	99.9

Source: Federal Reserve Board
Note: Parts may not add to totals due to rounding.

one sixth, or 15% ($18 billion), represents direct loans to individuals (Chart 20). Such a distribution would leave a residual of almost 17% as "other" credit, including appliance paper, home improvement loans, etc. The vast majority of finance companies now offer a combination of these consumer credit products as opposed to some years ago when many were highly specialized and offered few types of loan products.

Although most finance companies and industrial banking companies now in operation had their early beginnings in the direct cash loan field, many others started in the retail sales financing business. Most have subsequently added the other services as a means of providing more complete service for existing customers or as a means of attracting new customers.

Financing of automobiles and other consumer durable goods, the specialty of the sales finance company, is frequently a marginal profit activity, nearly always requiring a large volume for success. Particularly in the financing of relatively small purchases, the total income from finance charges barely covers the cost of putting an account on the books, and is often inadequate to cover the cost of servicing over a period of months or years.

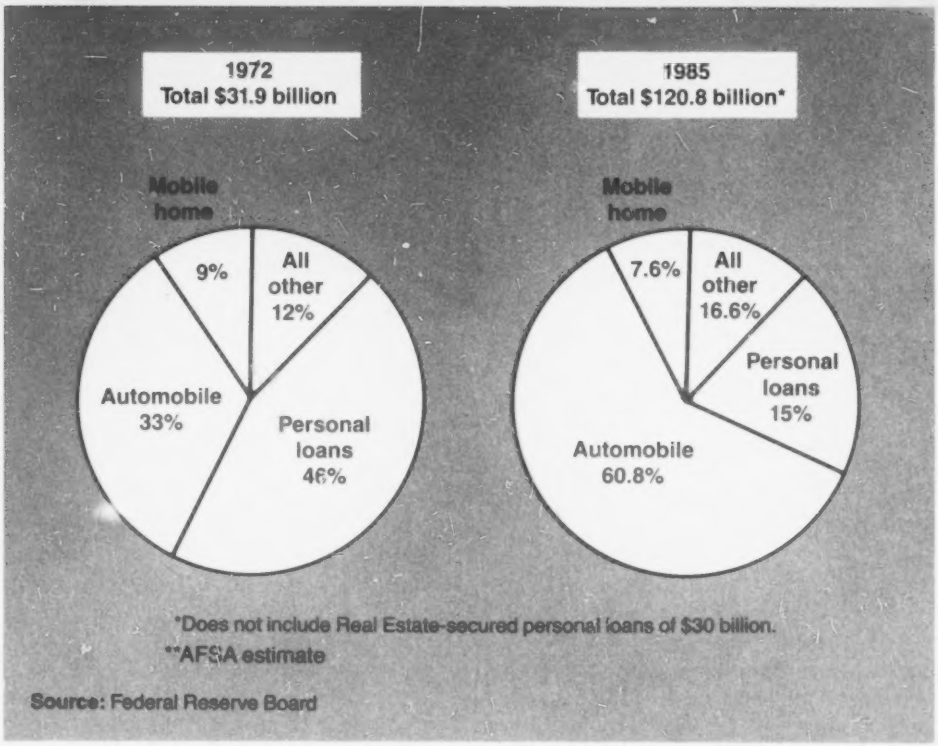
Revolving or open-end consumer credit business has been growing but is still not a major line of business for most finance companies, partially because of restrictive legislation. However, with the increasing use of electronic fund transfers, many companies are showing an interest in expanding this type of service. AFSA data show that revolving consumer credit has comprised about 3½% of the consumer receivables of a sample of finance companies in 1984 and 1985, up from 1½% or less in earlier years.

Automobile Financing

As automobile and other manufacturers expanded the operations of their finance company subsidiaries, and as retail chains established their own finance subsidiaries, the market for independent sales finance companies decreased. In addition, during the early 1970's, commercial banks and credit unions became increasingly aggressive in auto financing. After 1979, however, other higher earning markets for commer-

CHART 20

CONSUMER INSTALLMENT CREDIT OUTSTANDING AT FINANCE COMPANIES AT YEAR END



cial bank lending beckoned, and credit unions faced shortages of funds. These institutions' participation in auto financing then lessened. A resulting shift back to finance companies was evident in earlier Federal Reserve statistics, which showed that finance companies' share of total automobile credit outstanding rose from 26% in 1980 to 33% and 35% in 1981 and 1982 respectively. With continued economic recovery, however, commercial banks had again become more prominent as holders of auto credit (as much a result of improved auto sales as of an effort to increase such lending). And, as banks' share of outstanding auto credit increased from 47% in 1982 and 1983 to 49.5% in 1984, finance companies' share slipped, from 35% to 32%.

The data have since been revised, however, and figures for the total amount of automobile credit outstanding are no longer available. Only series for commercial bank and finance company auto loans still exist. Even without these, however, it would be possible to see evidence of the efforts of finance companies in 1985 to reclaim some of the business that had been eroded by other lenders. Low rate financing programs were offered periodically throughout the year, usually for a limited time and often only on certain models of cars. Annual percentage rates as low as 5.7% were offered by some companies. The average of rates offered by the 3 major auto finance companies for new car loans during some months came down to 8.84% and 9.97% (in September and Oc-

tober, the busiest months). Sales (and therefore credit extensions) soared during the incentive programs, so much so that the auto makers have found sales lax during the periods in which no programs were offered.

Mobile Home Financing

Financing the purchase of mobile homes is a rather volatile portion of finance companies' business. In the mid-1970's, for example, around as much as 11% of finance company outstandings were mobile home loans. This proportion fell below 8% in the late 1970's, rose to almost 12% in 1982 and in 1985 was back to 7.6%. At the end of 1985 there were $9.2 billion in this type of receivable outstanding, just the same amount as in 1984.

Sales Financing

The medium of a retail sales financing service has in the past provided the consumer finance company with an opportunity to attract new direct loan customers. Traditionally the customer (buyer) entered into a contract with a dealer (seller) to buy a refrigerator, for example. The dealer, in turn, would resell the contract to, or "discount" the "paper" with, a finance company by assigning it (endorsing the contract) to the finance company. The buyer would make monthly payments directly to the finance company under the same terms and conditions as those of the contract with the seller. In such a transaction, as the customer proved his or her credit-worthiness by the manner in which payments on the refrigerator were made, the finance company gained a customer to whom it could then also offer its direct loan services. The customer established a credit relationship with the finance company which could be drawn on at a time when he or she might need credit. With the expanded use of revolving credit in the 1970's, finance companies began to offer such sales finance service through the use of credit cards or private label financing. Although there is no available measure of the amount of such revolving credit outstanding, it is included in the $20 billion of "other" consumer credit outstanding at finance companies at the end of 1985, ($20 billion being the amount of "other" credit after allowing for AFSA's estimate of $18 billion in personal loans).

Personal Cash Loans

Another major finance company product is the personal loan, which is nothing more than a loan, the proceeds of which are paid directly to the borrower. Personal loans are made or taken out for a variety of purposes and have a variety of characteristics. Some are short-term and unsecured; some are "secured" by the presence of a cosigner. Personal loans are increasingly frequently made in relatively large amounts and for extended terms when they are secured by real property. There is also an increasing amount of money advanced as open-end loans secured by real estate, and even some with adjustable interest rates. Most real estate-secured loans take the form of a junior mortgage, any existing mortgage(s) being senior. Of course, there are some cases in which a loan is classified as a "personal loan" may actually be used for a purpose which might qualify it as some other kind of loan. For example, the proceeds might be used to purchase a used car, or for tuition expenses. In this discussion, it is the fact of being paid directly to the borrower that distinguishes personal loans.

Finance companies' outstandings of personal loans are no longer estimated by the Federal Reserve Board, and in fact, the real-estate secured loans would not be included in the Fed's definition of consumer installment credit, although they are made directly to individuals, for consumer purposes, and are repaid in installments. Based on our research, AFSA estimates that of the $38 billion of "other" consumer credit at the end of 1985 shown in Table 25, somewhere in the area of $18 billion is personal loans, excluding those secured by real estate. In addition, the Fed publishes a series showing about $30 billion of real estate secured loans at finance companies. Combined, AFSA esti-

TABLE 26

GROWTH IN SECOND MORTGAGE AND OTHER PERSONAL LOANS AT A SAMPLE GROUP OF FINANCE COMPANIES, 1977-1984
(In millions of dollars)

	1977	1978	1979	1980	1981	1982	1983	1984
Personal Loans	14,529	17,070	21,501	22,939	24,165	23,817	24,301	26,521
Second Mortgage	2,124	3,778	6,929	9,665	13,078	14,019	13,846	14,621
Other Personal Loans	12,405	13,292	14,572	13,274	11,087	9,798	10,455	11,900
Total Consumer Receivables	37,679	D45,539	57,927	63,729	74,810	77,903	85,584	94,743

Source: American Financial Services Association Surveys.

TABLE 27

AVERAGE LOAN SIZES AT FINANCE COMPANIES, 1981-1984

	Loans Made (excluding unearned charges)	Loans Outstanding (including unearned charges)
Second Mortgage Personal Loans		
1981 (53 companies)	$13,354	$14,675
1982 (62 companies)	$13,464	$16,644
1983 (64 companies)	$14,818	$14,855
1984 (62 companies)	$16,505	$16,227
Other Personal loans		
1981 (53 companies)	$1,561	$1,433
1982 (62 companies)	$1,731	$1,901
1983 (64 companies)	$1,924	$1,832
1984 (62 companies)	$1,996	$1,914

Source: American Financial Services Association Surveys.

mates almost $50 billion in finance company personal loans.

Larger amounts loaned on second mortgages make the fixed transaction costs of making the loans small as a percent of the amount loaned, and the security (in the form of home equity) makes this kind of personal loan an attractive product for consumer finance companies. While detailed and comprehensive data on the second mortgage loan market are not available, it is generally believed that finance companies are the largest holders of such credit.

AFSA's Research Report and Second Mortgage Lending Report Supplement 1977-1984 reveals a pattern of strong growth in seconds at a consistent sample of such companies over the seven year period. There was a small (1.3%) temporary decrease in 1983 (Table 26). The year-to-year increases in second mortgages at this group of finance companies have been as high as 83% (in 1979). After the decline in 1983, which seems to have been an indication of caution after such rapid growth in the previous years, rather than an actual withdrawal from second mortgage lending, second mortgage loans outstanding increased again by 5.6%. Other personal loans also grew, by 13.8% in 1985. Even so, personal loans continued a several-year decline as a share of consumer and total receivables at finance companies. Some of the decline, however, may be explained by the movement of some personal credit into the "revolving" category.

Loan Sizes

Both legal and economic factors affect the size of loans made by finance companies. In the case of finance companies, unlike many other types of financial institutions, the legal factors are determined at the state level. Finance companies are not federally regulated (except where their status as a bank holding company or the subsidiary of a bank holding company dictates otherwise), although certain regulations of the Federal government do apply to them. As a result, there is a complicated patchwork of state regulations and regulatory bodies dictating certain aspects of the operations of licensed lenders, finance companies, loan and investment companies, etc. Of course, the statutory limits on finance companies are determined by the states' legislatures. One of these limits is the "loan ceiling" which is a limit on the size of loans made. Maximum loan sizes have been increasing in recent years, although the trend is not universal.

Economic decisions regarding the size of loans made are affected by the relationships between the loan ceilings, maximum authorized rates (as set out by usury laws) and the demand for loans of various sizes.

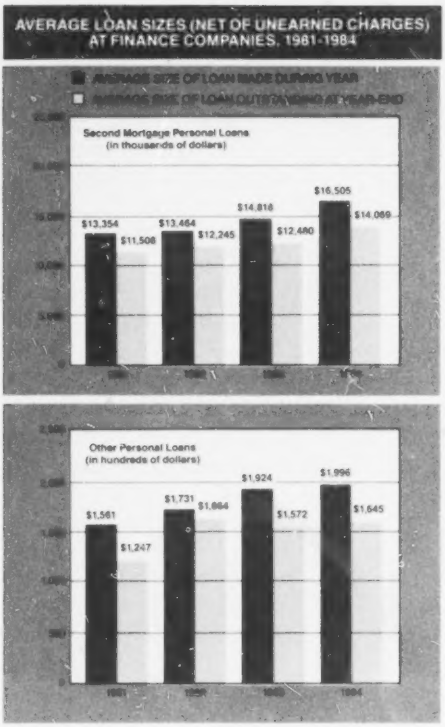
Finance companies generally try to offer full loan services. That is, they try to serve customers who need both small and large loans. However, the yield on small loans is often considerably below the cost of making the loans, making it economically impossible for any institution to have a very large proportion of loans outstanding in the form of very small loans. Rising consumer prices, however, have reduced the consumer demand for very small loans, alleviating this problem somewhat.

According to AFSA surveys of member finance companies, the average size of second mortgage personal loans made (at 62 responding companies) in 1984 was $16,505 (excluding unearned charges). This compares with an average non-second mortgage personal loan size of $1,996 (Table 27 and Chart 21).

The same companies also provided sufficient detail to show average size second mortgage loans outstanding of $16,227 (including unearned charges) and average size non-seconds outstanding at $1,914.

Automobile finance contracts are generally much larger than (non-second-mortgage) personal loans. Federal Reserve data reveal that the average amount financed on new automobiles (again excluding precomputed charges) increased from $9,333 in 1984 to $9,869 in 1985 (Chart 22). For used cars, the amount advanced by finance companies increased from $5,691 in 1984 to $6,042 in 1985.

CHART 21



Rates Charged by Finance Companies

Laws governing the maximum rates that consumer installment credit companies may charge are determined by each state and often differ for different types of loans. Unfortunately, very little information is available about rates actually charged by finance companies for specific types of loans, but a few clues are available. (All rates quoted here are annual percentage rates (APR), calculated in the manner prescribed by the Truth in Lending Law). According to the Federal Reserve Board, the annual rate charged by finance companies in 1985 for financing of new autos averaged 11.9% and for used autos 17.56%.

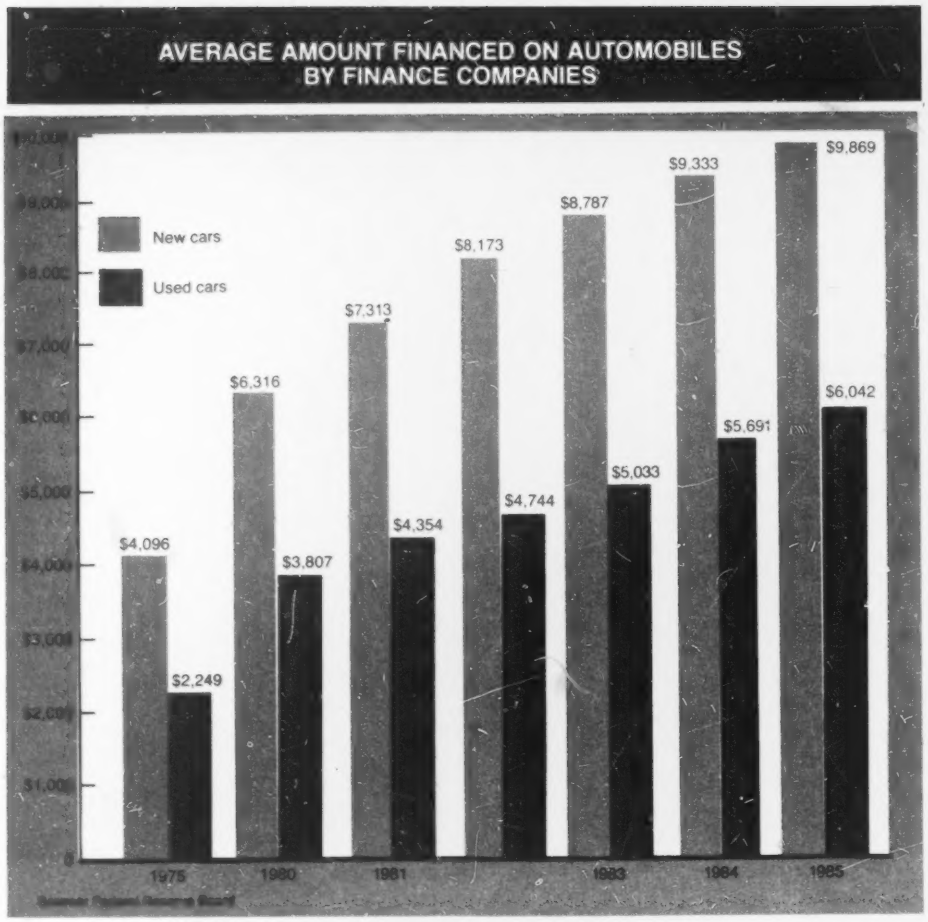
Types of Rate Quotation

Prior to passage of the Truth in Lending Act, various types of rate quotation were permitted (or required) by states. Two specific cases involving small loans provide an example. Both rate systems lumped all finance charges into a single rate, although additional charges were permitted (and regulated) in most states to cover the cost of insurance when the borrower desired such coverage. Both forms of quotation also permitted the borrower to repay a loan without penalty at any time before the contract matured.

The older form of rate quotation was the percent per month of the unpaid balance. Illinois' small loan law, for example, was of this type and permitted charges as follows: 2½% per month on the first $300 outstanding, 2% per month on the amount between $300 and $600 outstanding, and 1½% per month on the amount between $600 and $3,000 outstanding. Applying these rates, a $1,000 loan repaid in 12 equal monthly installments of $95.36 would cost the borrower $144.32 in interest. This amounts to an effective APR of 25.67%, measured according to the Truth-in-Lending method.

Many states also adopted a form of rate quotation for small loans similar to that frequently used by retail stores in pricing consumer installment credit. This form of quotation is referred to as add-on, meaning that a certain number of dollars is added to the amount of the contract to be repaid. Ohio's small loan law is an example of this type, allowing $16 add-on per $100 per year up to $750, $11 per $100 per year on the amount between $750 and $1,500, and $9 per $100 per year on the amount between $1,500 and $3,000. In this case, a loan of $1,000 repaid in 12 monthly installments of $95.62 each would cost the borrower $147.44 in interest or an effective 26.18% APR. For larger loans, the annual percentage rate is lower. For example, the finance charge for a loan of $4,000 in Colorado under the Uniform Consumer Credit Code is $433.04 amounting to an annual percentage rate of 19.42%. The total of $4,433.04 is repayable in 12 monthly installments of $369.42 each. Obviously, it is very difficult to compare among these methods, which is why the annual percentage rate method was instituted as a standard.

CHART 22



Terms of Finance Contracts

The maximum length of loan or sales finance contracts also is limited by legislation or regulation in each state although company policy may restrict maturities to a shorter term than that permitted by law.

Federal Reserve data reveal that in November 1985 new auto contracts written by major finance companies had an average length of 52 months. This figure has been rising for several years. Used car contracts in the same period had average maturities of 41.5 months, also up from earlier years. It should be noted here that this trend toward longer contract terms in auto loans has been observed as well for other types of consumer loans. Loan-to-value ratios at auto finance companies for new cars averaged 92% and for used cars 95%, compared with 86% and 93% two years earlier.

Consumer Borrowers

Traditionally, the "character" of the borrower was the significant factor considered by finance companies in granting loans. Except in the case of large loans, security in the form of tangible personal property fre-

TABLE 28

PERCENTAGE DISTRIBUTION OF PERSONAL LOANS MADE AT FINANCE COMPANIES IN 1984, BY PURPOSE

	Percent of Reported Loans Made in 1984	
Second Mortgage Personal Loans	Number	Amount
Purchase or Transfer of Primary Residence	1.1%	1.2%
Other Real Estate Purchase	1.3%	2.0%
Other	97.6%	96.8%
TOTAL	100.0%	100.0%
Number of Companies:	17	
Number of Cash Loan Offices:	3,393	
Average Size Loans Made:	$16,402	
Other Personal Loans		
Consolidation of existing bills	17.9%	19.9%
Travel, vacation and education expenses	12.1%	11.2%
Automobile purchase or repair	12.7%	13.1%
Home furnishing and appliances	4.3%	3.6%
Household repairs	5.8%	6.5%
All other purposes	47.2%	45.7%
TOTAL	100.0%	100.0%
Number of Companies:	16	
Number of Cash Loan Offices:	5,055	
Average Size Loan Made:	$2,035	

Source: American Financial Services Association Surveys.

quently had little market value. To the borrower, however, it would have considerable subjective value and willingness to use it as security established evidence of good faith. Since the early days of finance company lending, however, legal changes, economic factors such as declining demand for very small loans, and the emergence of alternative products (such as second mortgages) have led to the phasing out of the use of household goods as security for personal loans.

Table 29 reveals that the vast majority (almost 98%) of finance company real-estate secured personal loans were taken out for uses not involving the purchase or transfer of real estate. More specifically, seconds are now being used primarily to finance such activities as vacations, college tuition, home improvements, etcetera. A large portion (around 18%) of the smaller other personal loans were used to consolidate and/or refinance existing debts (Table 28).

The characteristics occurring most often among the second mortgage customers of the surveyed companies include: age between 35 and 44 years, annual income over $15,000, occupations as operatives, labor-

TABLE 29

PERCENTAGE DISTRIBUTION OF LOANS MADE AT FINANCE COMPANIES IN 1984, BY CHARACTERISTICS OF BORROWERS

By Annual Income	
$5,000 or less	7.9%
$5,001 to $10,000	13.2%
$10,001 to $15,000	12.2%
$15,001 to $20,000	11.4%
$20,001 to $25,000	10.4%
$25,001 to $30,000	9.2%
$30,001 to $40,000	13.9%
$40,001 to $50,000	9.0%
$50,001 to $75,000	9.0%
Over $75,000	3.8%
Total	100.0%
Mean household income	$27,464
By Age of Householder	
Less than 25 years	6.3%
25 to 34 years	23.1%
35 to 44 years	20.1%
45 to 54 years	14.6%
55 to 64 years	15.1%
65 years and over	20.9%
Total	100.0%
Memo: Total number of households..(thousands)	86,789

Source: Bureau of the Census.
Note: Parts may not add to totals due to rounding.

ers, managers, proprietors etc. Second mortgage loans are made most frequently in amounts between $5,000 and $10,000 (net of unearned charges). For other personal loan borrowers, age is younger, most frequently between 25 and 34 years, and annual income is lower, between $15,000 and $24,000. Occupations are again most frequently operatives, laborers, clerks, etc. and loans are most frequently made in net amounts between $2,000 and $5,000 (Table 29). Table 30 provides the income and age distributions of the 86,789,000 U.S. households in 1984 for purposes of comparison. Although the income brackets are slightly different, general comparison is possible. The most common household income in the overall population was between $30,000 and 40,000, and the most common age of householder was between 25 and 34.

Structure of the Finance Company Industry: AFSA Survey Results

The finance company industry has undergone many changes in the past few years, re-

TABLE 30

PERCENTAGE DISTRIBUTION OF U.S. HOUSEHOLD POPULATION BY ANNUAL INCOME AND BY AGE, 1984

By Annual Income	
$5,000 or less	7.9%
$5,001 to $10,000	13.2%
$10,001 to $15,000	12.2%
$15,001 to $20,000	11.4%
$20,001 to $25,000	10.4%
$25,001 to $30,000	9.2%
$30,001 to $40,000	13.9%
$40,001 to $50,000	9.0%
$50,001 to $75,000	9.0%
Over $75,000	3.8%
Total	100.0%
Mean household income	$27,464
By Age of Householder	
Less than 25 years	6.3%
25 to 34 years	23.1%
35 to 44 years	20.1%
45 to 54 years	14.6%
55 to 64 years	15.1%
65 years and over	20.9%
Total	100.0%
Memo: Total number of households..(thousands)	86,789

Source: Bureau of the Census.
Note: Parts may not add to totals due to rounding.

flected in changes in AFSA's annual survey. Earlier reports had been designed to reflect characteristics of two distinct types of finance companies dealing with consumers: 1) consumer finance companies—those companies primarily engaged in making cash loans directly to consumers; and 2) sales finance companies—those companies primarily purchasing retail installment sales contracts from retailers and dealers. This division seemed appropriate for many years since each type of company had discrete attributes. Consumer finance companies generally made smaller loans, relied more heavily on long-term borrowing as a source of funds, and operated from more offices (with more operating overhead) per unit of receivables. Sales finance companies generally made larger loans (more frequently secured), and relied more on short-term commercial paper as a funds source.

Generalizations of this type, however, are no longer appropriate. In recent years many finance companies have diversified both their assets and their liabilities, especially the large companies. Consumer finance companies now often purchase installment sales contracts through their cash loan of-

TABLE 31

ASSETS OF COMPANIES RESPONDING TO AFSA QUESTIONNAIRE, DECEMBER 31, 1984

	All Reporting Companies	Reporting Companies with Receivables of less than $1 Billion	Reporting Companies with Receivables of $1 Billion or more
	(In millions of dollars)		
Personal loans	31,019	4,868	26,151
Retail automobile paper*	58,868	746	58,122
Other consumer receivables	12,919	938	5,982
Business receivables**	54,494	583	59,910
Subtotal	157,300	7,135	150,165
Deduct reserves for unearned income	20,683	973	19,710
Subtotal	136,617	6,162	130,455
Deduct reserves for losses	2,525	158	2,367
Subtotal	134,092	6,004	128,088
Cash and Noninterest deposits	1,078	63	1,015
Time Deposits	765	105	661
U.S. Gov t & Other Marketable Securities	8,754	225	8,529
Others Loans & Investment	7,057	253	6,804
Other Assets	10,970	234	10,736
TOTAL ASSETS	162,716	6,884	155,833
Number of companies	110	91	19
Number of offices	11,288	2,304	8,984

Source: American Financial Services Association
Note: Parts may not add to totals due to rounding.
* Includes retail automobile contracts for business purposes.
** Excludes retail automobile contracts for business purposes.

fices. Sales finance companies have entered the cash loan business. Both types of companies are also active in many forms of commercial financing, a particularly rapidly growing portion of the business of some companies. Although smaller companies are likely to be more specialized than large companies (usually in cash lending), many smaller companies have diversified in the last decade as well. Because of these changes, the main distinction among companies is now division by size of company rather than by type. Distributions of assets, liabilities, income, and other totals are presented separately for companies with receivables of $1 billion or more and for companies with receivables of less than $1 billion. Then, within these major size classifications, the

same distributions are presented for companies with at least 50 percent of receivables in personal (cash) loans and for companies with less than 50 percent of receivables in personal loans.

Assets

The 1984 AFSA survey of finance companies obtained data from 110 companies, both large and small, which operated 11,288 offices throughout the United States (Table 31). These companies had total assets of $163 billion at the end of 1984 including $157 billion in accounts and notes receivable of which $31 billion was in personal loans.

Of the 110 companies responding to the survey in 1983, 91 were "small" companies, according to the above-mentioned classification scheme. These companies had assets of $6.9 billion including personal loans of $4.9 billion. Of the 110, 19 were "large" companies and held assets of $156 billion and personal loans of $26 billion.

Liabilities and Sources of Funds

Finance companies take on all of the common forms of business organization, including the individual proprietorship, the partnership, and the corporation, with the latter predominating. Sources of funds have been generally the same as those of similar privately owned organizations in other fields of endeavor. Thus, finance companies have competed with all other types of businesses in funds markets. The only exceptions are in those states where industrial banking companies are chartered, and can compete for consumer deposits in addition to other sources of funds.

Aggregate liabilities, capital, and surplus of the surveyed finance companies are shown in Table 32. Data for all of the reporting companies combined show that the largest sources of funds (as a percent of liabilities and capital combined) were long-term debt (31.6%) and commercial paper (30.8%). Other sources of funds included: bank loans of 2.6%, deposit liabilities and thrift certificates of 2.3%, subordinated debentures of 4% and capital and surplus of 10.3%.

Income and Expenses

As finance companies' assets have diversified in recent years so have sources of income. New lines of business have included commercial lending, purchase of or merging with retailers, and leasing. Some finance companies, through subsidiaries, have entered or expanded insurance operations, writing not only credit life insurance but also other forms of insurance. In 1984, 13.0% of the gross income of 110 reporting finance companies came from sources other than accounts receivable (Table 33). Of total gross income, 9.6% was used for wages and salaries, 0.7% for advertising and publicity, and 4.7% for losses and addition to loss reserves. After paying out 50.5% of gross income as their cost of borrowed funds, income taxes of 6.2% of gross income were paid, leaving $2.5 billion in net income (10.9% of gross income).

Cost of Funds and Rate of Return

Summaries of individual cost of borrowing and rate of return on equity ratios for companies which reported such information in the 1984 survey are shown in Tables 34 and 35. In general, the cost of borrowing (expressed as a percent of total assets) was higher for the small companies than for larger companies.

Aggregate earnings ratios by company size groups are less revealing. The overall rate of return on invested capital, defined as net income (after payment of income taxes), and expressed as a percentage of net worth (capital, surplus and retained earnings), for the 110 reporting finance companies was 15.08% (Table 36), slightly lower than the 17.84% rate of 1983, but still very strong. The 18 large companies, combined earned 15.04% on invested capital in 1984, while the 91 small companies earned 15.70% comparable rate.

TABLE 32

LIABILITIES, CAPITAL, AND SURPLUS OF REPORTING FINANCE COMPANIES, 1984

	All Reporting Companies	Reporting Companies with Receivables of less than $1 Billion	Reporting Companies with Receivables of $1 Billion or more
		(In millions of dollars)	
Bank Loans	4,250	1,258	2,991
Commercial Paper	50,183	793	49,390
Other Short-term debt	6,766	1,036	5,730
Deposit Liabilities and Thrift Certificates	3,672	841	2,831
Long-term Indebtedness (excluding subordinated debentures)	51,420	1,070	50,350
Subordinated Debentures	6,459	350	6,109
All Other Liabilities	23,146	512	22,635
Subtotal - Liabilities	145,896	5,860	140,036
Capital, Surplus and Retained Profits	16,820	1,024	15,797
TOTAL	162,716	6,884	155,833
Number of Companies Reporting	110	91	19

Note: Parts may not add to totals due to rounding.

Source: American Financial Services Association surveys.

Industrial Banking Companies

The generic term "industrial banking companies" is used to include those institutions which are chartered by state law to extend installment credit to consumers and to accept some form of savings deposit or sell investment certificates or certificates of deposit as at least a partial means of financing the operation. By virtue of this feature, their membership in Automated Clearing Houses, and their participation in the direct deposit program of U.S. Treasury checks, industrial banks are distinguished from (non-depository) finance companies as being depository institutions. Legislative and policy changes were made during 1982 and 1983 that further that distinction. The

TABLE 33

GROSS INCOME, EXPENSES AND NET INCOME OF REPORTING FINANCE COMPANIES, 1984

	All Reporting Companies	Reporting Companies with Receivables of less than $1 Billion	Reporting Companies with Receivables of $1 Billion or more
		(In millions of dollars)	
Sources of Gross Income			
Accounts receivable	20,293	1,122	19,171
Other	3,047	236	2,811
Total	23,340	1,358	21,982
Uses of Gross Income			
Expenses other than cost of borrowed funds:			
Wages and salaries	2,237	233	2,004
Advertising and publicity	169	27	143
Net losses and reserves	1,086	78	1,007
Other	4,077	240	3,837
Subtotal	7,569	578	6,991
Cost of borrowed funds	11,798	514	11,284
Federal income taxes	1,436	105	1,331
Net income	2,537	161	2,376
Number of Companies Reporting	110	91	19

Source: American Financial Services Association.
Note: Parts may not add to totals due to rounding.
See Table 30 for number of offices covered in this report.

definitions of "state banks," "deposit," and "commercial loans" were expanded to include industrial banks, their deposit-like instruments and some of their assets, with implications for their eligibility for FDIC deposit insurance and for their non-bank status.

While they may be descended from one common type of institution, namely the Morris Plan companies, many changes have taken place since the founding of the Fidelity Savings and Trust Company, the first industrial banking company, and the rules under which today's companies operate differ significantly between states. Looking at their "deposits or deposit-like instruments," for example, Investment Certificate Corporations in Kentucky are not financial institutions, have no deposit-taking authority, and are licensed only to sell securities. They are regulated not only by the state banking or financial authority, but by the securities com-

TABLE 34

ESTIMATED OVERALL COST OF BORROWING IN 1984
FINANCE COMPANIES

Companies with Credit Outstanding of:	High	Low	Median	(Number of companies)
$500 million and over.....	12.18%	8.66%	10.99%	21
$150 million and less than $500 million.....	12.26%	10.00%	11.40%	8
$50 million and less than $150 million.....	12.87%	9.76%	11.13%	13
Less than $50 million.....	15.07%	8.00%	12.02%	30
Total.....	15.07%	8.00%	11.40%	72

Source: American Financial Services Association.

mission. At the same time, also falling into the category "industrial bank" are the institutions chartered in Rhode Island as Loan and Investment Companies or, as they are now authorized to call themselves, Loan and Investment "Banks." Not only are their savings accounts given full deposit status, but the institutions are also authorized to accept demand deposits.

The lending powers of "industrial banks" vary greatly between jurisdictions as well. In this respect, Arizona, where no Industrial Banks operate because of an interest rate restriction of 10% per year discount and maturity restricted to one year, can be compared to California, where 9% of loans made by Industrial Loan Companies in 1982 were for amounts over $10,000 an 24% of the dollar amount loaned was classified as "non-consumer" loans. Even the nature of the various institutions differs, most but not all states considering them financial institutions. Within some states (Tennessee and West Virginia for example), separate charters have been created to recognize and provide for some of these differences. The characterization of all of these institutions as "industrial banks" is maintained, however, on the basis that these are largely definitional and legal distinctions, and that, both functionally and in the way they are perceived by their customers, the institutions are very similiar.

Table 37 indicates the number of industrial banking companies and offices operated in twenty states at the most recent dates available. For the same states, Table 38 shows a breakdown of assets by state, which probably totaled about $7.5 billion in 1982. Table 39 shows the liabilities and net worth of industrial banking companies by state. In 1982, deposits and thrift investment certificates of these companies were in the neighborhood of $4 billion, while overall capitalization was around 16%.

State deposit insurance corporations for industrial banks have been formed and are known generically as guaranty corporations in the states of California, Colorado, Hawaii, Iowa, Kansas, Nevada, Rhode Island, and Utah. These corporations serve the specific purpose of guaranteeing the de-

TABLE 35

ESTIMATED RETURN ON EQUITY IN 1984 FINANCE COMPANIES*

Companies with Credit Outstanding of:	High	Low	Median	(Number of companies)
$500 million and over.....	42.57%	0.08%	15.67%	22
$150 million and less than $500 million.....	25.79%	0.00%	16.26%	8
$50 million and less than $150 million.....	27.78%	3.03%	16.52%	13
Less than $50 million.....	57.23%	0.00%	11.00%	33
TOTAL.....	57.23%	0.0%	13.36%	76

Source: American Financial Services Association.

*Includes Finance Companies responding to AFSA Annual Survey and reporting Return on Equity of zero or greater.

posits of insured industrial banking companies. Institution of deposit guarantees by these corporations initially brought additional deposits into the industrial banking companies. However, as the amounts of deposit insurance for savings and loans and commercial banks were increased from (from $10,000 to $40,000, and again in 1980 to $100,000), it became less attractive to keep deposits at industrial banking companies since other types of depository institutions were insured for larger amounts. The collapse in 1982 of the Nebraska Depository Institutions Guarantee Corp. further shook confidence in industrials in that state, although many of the industrials have been rechartered as savings and loan associations or commercial banks, thereby entering other deposit insurance plans.

In 1985 state chartered savings and loan associations in Ohio and Maryland suffered deposit runs and were briefly closed by the states' governors when their private insurance funds' ability to insure all depositors came into question. Neither the Ohio Deposit Guarantee Fund nor the Maryland Savings Share Insurance Corporation, it developed, had nearly enough assets to be able to pay off even a fraction of insured depositors, should the need arise. Since then, the wisdom of such private insurance arrangements has come under close scrutiny and several of the funds have been converted to state sponsorship or have voluntarily dissolved themselves.

Regulation of Consumer Lenders

All of the federal and state statutes and regulations affecting corporations, partnerships and proprietorships generally apply to such organizations which provide consumer installment credit. This includes Federal Trade Commission, Securities and Exchange Commission, and various state and

TABLE 36

RELATION OF INCOME TO OUTSTANDINGS, ASSETS AND EQUITY
FINANCE COMPANIES, 1984

	All Reporting Companies	Reporting Companies with Receivables of less than $1 Billion	Reporting Companies with Receivables of $1 Billion or more
Finance charges collected as as percent of year-end net outstandings.....	14.85%	18.21%	14.70%
Cost of borrowed funds and net income as a percent of total assets at year-end - TOTAL....	8.81%	9.80%	8.76%
Cost of borrowed funds.....	7.25%	7.47%	7.24%
Net income after taxes.....	1.56%	2.33%	1.52%
Net income afrer taxes as a percent of capital, surplus and undivided profits.....	15.08%	15.70%	15.04%

Source: American Financial Services Association.

other regulations. In addition, finance companies are subject to a multitude of state financial institution statutes.

In most states, the provisions are enforced by a division of the Banking Department which is frequently empowered to supplement the statutes by promulgating rules and regulations. Elsewhere, similar powers rest with other agencies or departments. In Ohio, for example, it rests with the Director of Commerce and in California with the Commissioner of Corporations.

Many states' laws require consumer loan licensees to report regularly (usually annually) on their operations to the state supervisory authorities. In practically all states, annual examination by these authorities is required by law and examinations at other times are permitted. The costs of such examinations, in addition to the annual license fee for each operating office, are in most states borne by the licensees.

While large loans are made under various statutes, including in some states specific second mortgage laws, many of the smaller unsecured installment loans are still made under provisions of laws derived from the "Uniform Small Loan Law" originally promulgated by the Russell Sage Foundation in 1916, and the "Model Consumer Finance Act" drawn up by the National Consumer Finance Association in 1948. The terms "Uniform Small Loan Law" and "Model Consumer Finance Act" have come to be used interchangeably. Regulatory features consist of provisions with respect to the following: 1) licensing by a state supervisory official, 2) supervision by a state supervisory official having powers to enforce and interpret the law, 3) authorization of adequate charges to permit complete service, 4) limitation of charges, 5) regulation of contract provisions, 6) disclosure of terms and status of loan transactions, 7) prohibition of evasions and subterfuges, and 8) penalties and enforcement powers. The his-

TABLE 37

INDUSTRIAL BANKING INDUSTRY BY STATE[1]

	As of:	Number of Companies	Number of Locations
Arkansas	12/82	3	3
California	12/84	67	531
Colorado	12/85	129	129
Connecticut	12/83	0	0
Florida	12/84	3	3
Hawaii	12/82	78	231
Indiana	6/84	5	18
Iowa	12/82	56	201
Kansas	12/83	11	43
Kentucky	6/84	25	135
Minnesota	12/82	23	143
Missouri	12/82	2	2
Nebraska	6/83	35	35
Nevada	12/82	6	21
North Carolina	6/83	1	1
Rhode Island	12/83	11	24
Tennessee	12/83	422	422
Utah	6/85	37	90
Washington	12/82	25	183
West Virginia	12/83	87	87

1/Companies with authority to issue deposits or deposit-like instruments, which may carry a variety of titles. In some states, not all companies with this authority have chosen to exercise it.

Source: American Financial Services Association.

tory of this uniform code lies in an effort to create a regulatory environment similar in all jurisdictions, given the absence of a federal system for finance companies.

Uniform Consumer Credit Code

As various institutions such as finance companies, industrial banking companies, commercial banks, credit unions, retailers, savings and loan associations, and mutual savings banks entered the consumer credit business, the states' laws were amended. As a result, most states have in effect a number of laws which may vary as to rates, supervision, and other legal requirements placed on the various consumer creditors.

The Uniform Consumer Credit Code, which is an indirect descendant of the earlier-mentioned "Uniform Small Loan Law" and the "Model Consumer Finance Act", was designed as a single law to govern all consumer credit contracts and as a replacement for a multitude of differing state laws including small loan laws, sales finance and revolving credit laws, usury laws, and laws regulating insurance premium financing, home repair financing and second mortgage loans. Consumer credit as defined by the UCCC consists of loans and sale credit to individuals for personal, family, household, or agricultural purposes, including the purchase of a home or farm, when there is a charge for the credit or the credit is repayable in installments. The UCCC would regu-

TABLE 38

ASSETS OF INDUSTRIAL BANKING COMPANIES, BY STATE*

	Net Receivables	Other Assets	Total Assets
	(in thousands of dollars)		
Arkansas	20,771	12,593	33,364
California	1,979,385	295,543	2,274,928
Colorado	839,910	224,004	1,063,914
Florida	33,153	20,266	53,419
Hawaii	1,017,983	279,472	1,297,455
Indiana	313,434	72,743	386,177
Iowa	342,182	140,845	483,027
Kansas	124,703	14,636	139,339
Kentucky	28,501	16,551	45,052
Minnesota	284,871	33,114	317,985
Missouri	7,342	3,206	10,548
Nebraska	290,787	136,583	427,370
Nevada	104,083	37,375	141,458
North Carolina	2,779	3,118	5,897
Rhode Island	546,917	307,508	854,425
Utah	687,517	129,759	817,276
Washington	811,101	5,910	817,011
West Virginia	129,378	32,641	162,016

* See Table 37 for dates.

Source: American Financial Services Association.

late all consumer credit as defined for amounts up to $25,000, with provisions for increasing the ceiling based on increases in the Consumer Price Index.

The UCCC would fix the same maximum rates for all types of consumer credit grantors. Originally, for example, UCCC maximum rates for installment credit (loans and sales finance) were 36% per year on the first $300 loaned, 21% per year on the next $700, and 15% per year on the remainder, with the provision that steps would be increased based on changes in inflation. When these graduated rates yield less than 18% per year, the maximum would be 18% per year.

The UCCC also includes significant consumer protection provisions as to disclosure of contract terms, advertising, balloon payments, security, garnishment and other creditors' collection remedies, unconscionable or fraudulent conduct, "cooling-off" period for door-to-door sales, referral sales, recission of contracts secured by the debtor's home, and official surveillance and enforcement by an Administrator. There are heavy civil and criminal penalties specified for violations of the UCCC.

1974 revisions to the UCCC reflected changes in response to many of the recommendations made by the National Commission on Consumer Finance established by the Consumer Credit Protection Act. The revised UCCC substantially implements the National Commission's recommendations as to buyers' defenses in installment and credit card sales and in sale-related loans, deficiency judgements, service of process, limitations on garnishment, debt collection practices, door-to-door sales, and cosigner agreements.

The Uniform Consumer Credit Code has been adopted in Colorado, Idaho, Indiana,

TABLE 39

LIABILITIES OF INDUSTRIAL BANKING COMPANIES BY STATE*

	Deposits and Thrift/Investment Certificates	Other Liabilities	Total Capital	Total Liabilities and Capital
		(In thousands of dollars)		
Arkansas	30,019	654	2,691	33,364
California	1,896,856	154,542	223,530	2,274,928
Colorado	595,936	302,846	165,132	1,063,914
Florida	45,340	1,688	6,391	53,419
Hawaii	489,942	610,644	196,869	1,297,455
Indiana	332,836	24,959	28,382	386,177
Iowa	208,079	142,099	132,840	483,027
Kansas	48,335	75,977	15,027	139,399
Kentucky	11,006	10,954	23,092	45,052
Minnesota	49,927	166,483	101,575	317,985
Missouri	6,915	767	2,866	1,549
Nebraska	360,043	21,402	45,925	427,370
Nevada	126,746	3,878	10,834	141,458
North Carolina	4,411	46	1,440	5,897
Rhode Island	759,612	44,966	49,847	854,425
Utah	604,082	101,940	111,254	817,276
Washington	127,643	560,458	128,910	817,011
West Virginia	63,267	56,816	41,933	162,016

* See Table 37 for dates.

Source: American Financial Services Association

Kansas, Maine, Oklahoma, Utah and Wyoming. Other states, such as Louisiana, Alabama, West Virginia and Wisconsin, have passed general statutes containing various elements of the UCCC.

Consumer Credit Protection Laws

Finance companies and industrial banks, like all other creditors, are subject to the Federal Consumer Credit Protection Act and other laws which mandate special procedures concerning credit or information about consumer borrowers.

Federal protection of consumer borrowers began in 1968 with the passage of the Consumer Credit Protection Act. Title I of this legislation, the Truth in Lending Act, mandated that creditors disclose credit terms to promote the informed use of credit by consumers. It also required the Board of Governors of the Federal Reserve System to prescribe regulations to carry out the purposes of the act. Specific Federal agencies administer the Board's regulations. Pursuant to congressional instructions, the Board issued Regulation Z, which provided, among other things, for disclosure of the actual "finance charge" for credit and of the effective "annual percentage rate" to be calculated using standardized methods.

Since this initial action, the Congress has amended the Truth in Lending Act repeatedly and has also enacted new consumer credit laws as follows: Fair Credit Reporting Act (1970), Credit Card Amendments to Truth in Lending (1970), Technical

Amendments to Truth in Lending (1974), Fair Credit Billing Act (1974), Equal Credit Opportunity Act (1974), Federal Trade Commission Improvement Act (1975), Home Mortgage Disclosure Act (1975), Equal Credit Opportunity Act Amendments (1976), Consumer Leasing Act (1976), Fair Debt Collection Practices Act (1977), Community Reinvestment Act (1977), and Electronic Fund Transfer Act (1978). As Title VI of the Depository Institutions Deregulation and Monetary Control Act of 1980, "Truth in Lending Simplification" was enacted.

The administrative structure for many of these laws parallels that of the Truth in Lending Act. The Congress states its general intent and instructs the Board of Governors of the Federal Reserve System to issue regulations that apply to institutions granting consumer credit. Thereafter the Federal agencies with primary supervisory responsibility for each class of creditors administer the Board's regulations for those creditors.

Report of the National Commission on Consumer Finance

The Consumer Credit Protection Act of 1968 also created a National Commission on Consumer Finance, whose duty was to study and appraise the functioning and structure of the consumer finance industry, as well as consumer credit generally. The Commission made its report to the President and Congress on December 31, 1972.

The Commission concluded that a truly competitive consumer credit market, with adequate disclosure of relevant facts to an informed consuming public, together with legislation and regulation to eliminate excesses, will foster economic growth and serve to optimize benefits to the consumer. As to excesses in the marketplace, the Report recommended significant additions to the protection of consumers in the fields of creditors' remedies and collection practices, urging restrictions on remedies such as garnishment, repossession and wage assignment, and recommending abolition of the holder in due course doctrine, confessions of judgement, and harassing tactics in debt collections.

The Commission's research studies contain the empirical data, information and analysis relied upon by the Commission. These six technical studies are as important as the Report itself and provide some data not available elsewhere.

One of the research volumes by the National Commission on Consumer Finance released early in 1974 (Technical Studies, Volume III), contains many tables of information on installment credit by states at mid-1971—the only attempt at a comprehensive state-by-state compilation.

Electronic Fund Transfer Systems

The development of Electronic Fund Transfer Systems (EFTS) has hastened an evolution in the payments system in which the commercial banking system is no longer the exclusive vendor of the means of money transfer. A growing number of institutions and industries outside of banking are offering money or near-money deposit arrangements and providing money transfer services.

The major contenders for money transfer powers have been the nonbank depository institutions: savings and loan associations, mutual savings banks, credit unions and industrial banks. Non-depository consumer finance companies, credit card companies, retailers, insurance companies, and new institutions (such as money market funds) are displaying increased interest in the direct transfer of funds. Technology has been the instigator in this area and legislation has been passed which is permitting changes whereby commercial banks may be by-passed in funds transfers.

Over the past two decades, the operations of financial institutions have become increasingly computerized, but mostly in ways that did not directly affect the manner in which ordinary customers transact their financial affairs. In the last few years, however, the consumer has begun to be offered computerized services that take over some of the functions of checks and currency. Many depository institutions now offer automated deposit and withdrawal services; many social security recipients and employ-

ees have their checks deposited electronically into their accounts; and some consumers are able to pay bills directly, without the use of cash or checks. These services are being facilitated by the technology that has become known as electronic fund transfers (EFT).

To learn more about EFT and to obtain a variety of views on the appropriate public policy toward EFT, the Congress established the National Commission on Electronic Fund Transfers to study and report, with recommendations, on all aspects of EFT with which the Congress should be concerned.

The Final Report of the National Commission on Electronic Fund Transfers which was released on October 28, 1977, was divided into eight parts: The Commission and Its Work; The Consumer and EFT; Developmental Issues in EFT; Technology and EFT; Roles of the Federal Government in EFT; and International Developments in EFT. Part 7 offers the separate statements of various Commissioners on various issues. Part 8 provides a series of nine appendixes containing the text of the Act which established the Commission, the votes of Commissioners on certain recommendations, a description of the payments system in the United States, and several descriptive appendixes regarding the Commission's work.

The Report reflected the Commission's recognition that EFT was (and still is) in the midst of an evolutionary process and that only the first steps had at that time been taken in its potential development. The Commission adopted the principle that the growth of EFT should take place in a competitive environment, that EFT should be viewed as an alternative means to provide payment services and that all evidence suggested that the paper-based system will remain in operation indefinitely. The Commission also accepted the thesis that the future of EFT is inextricably tied to consumer acceptance.

Essentially the Commission viewed EFT only within the existing institutional framework. It did not attempt to offer alternative scenario for possible development in the future. By virtue of this approach, finance companies which offer only credit and have no deposit capability, were considered in relation to credit markets and information transfer services but not in relation to funds transfer services. In contrast, industrial banking companies, which offer passbook or other deposit-like consumer services, would be included among the thrift institutions and subject to the conclusions and recommendations of the Commission.

Depository Institutions Deregulation and Monetary Control Act of 1980

The Depository Institutions Deregulation and Monetary Control Act of 1980, which became law on March 31, 1980, will have as far-reaching effects on financial institutions as did the Federal Reserve Act of 1913 and the various banking legislation of the 1930's. Through its nine titles consisting of 101 sections, the Act will have impact on the operations of all financial institutions, both depository and non-depository.

The Act will change the nature of our monetary system. All accounts of depository institutions subject to transfer of funds to third parties are incorporated into our country's medium of exchange. To effect this modernization of the monetary concept, the Act introduced the concept of "transaction account" which is defined as any deposit or account on which the depositor or account holder is permitted to make withdrawals payable to a third party. The Act also introduced the concept of the "non-personal time deposit" which is a transferable time account in which any beneficial interest is held by a depositor who is not a natural person. Beginning September 4, 1980, all depository institutions (banks, savings and loan associations, and credit unions) were required to maintain reserves against such accounts. Members of the Federal Reserve System were to adjust to this new structure of reserve requirements over a three and one-half year period. Non-member banks, savings and loan associations, credit unions, and industrial banks were to be phased into the reserve requirements over an eight-year period. Depository institutions

subject to these reserve requirements also have access to the Federal Reserve services.

The Act continues to alter the form and substance of regulations applied to depository institutions. To monitor and control monetary and credit aggregates, the Federal Reserve Board requires reports of assets and liabilities of all depository institutions including those that are not federally insured. The latter is accomplished through such state officer or agency as the Board may designate. To phase out the limitations on maximum rates of interest on deposits (Regulation Q) over a six-year period, the Act created a Deregulation Committee consisting of the Secretary of the Treasury, the chairmen of the federal regulatory agencies of depository institutions, and the Comptroller of the Currency. The committee's assignment was to provide depositors with a market rate of return on their savings, a task largely complete by the end of 1982. On March 31, 1986, the last controls expired, except for the prohibition on paying interest on demand deposits.

The Act provided for a redefinition of money and near-money, that is, demand deposits, time deposits and saving deposits. The Deregulation Committee had the authority to prescribe rules governing the payment of interest by all federally insured depository institutions and to establish classes of deposits or accounts. This could be done by the gradual increase in such limitations, the complete elimination of limitations on particular accounts, the creation of new categories of accounts, the combination of any of these methods, or by any other method. On March 31, 1986, all powers transferred to the committee under the Act terminated and the committee ceased to exist.

The Act expanded both the assets and liabilities acceptable for savings and loan associations. Subject to regulations of the Federal Home Loan Bank Board, they may now engage in or participate in credit card operations, offer loans specifically related to negotiable order of withdrawal (NOW) accounts, offer mortgages under certain circumstances of over 90% of appraised value, offer second mortgages and offer, with limitations, consumer loans and commercial real estate loans. As a source of funds, savings and loan associations may now issue mutual capital certificates which may be used as a part of the general reserve and net worth but must be subordinate to all savings accounts, certificates and debt obligations. Any state (stock) savings and loan association that existed in stock form by March 31, 1976 may convert to a federal (stock) charter under specified conditions.

The Act preempted state usury ceilings permanently in certain instances and was subject to override by state action in others. Usury provisions of state constitutions or laws affecting first liens on residential real property and manufactured homes taken after March 31, 1980 were preempted subject to override by state action after April 1, 1980, and before April 1, 1983. A somewhat similar provision for business or agricultural loans of $1,000 or more applied, except that a rate of not more than 5% above the Federal Reserve Bank discount rate was permitted. The preemption was subject to state override and expired on April 1, 1983. Insured state banks and thrift institutions, and small business investment companies may charge a rate of 1% above the basic Federal Reserve discount rate with no terminal date, but subject to state override. State restrictions on the rate of interest that may be paid on deposits were eliminated.

The Act amended the Truth in Lending Act to simplify and reduce the number and detail of disclosures and to make them more understandable. This part of the Act went into effect on October 1, 1982.

In summary, various sections of the nine titles of the Act have made and will continue to make changes in our financial system which will have impact upon many aspects of the operations of industrial banking companies. The Act will introduce more competition to the lending operations of finance companies, their markets for funds, and the legal framework under which they operate. The Act has created a new status for savings and loan associations including opening the federal charter to corporate stock savings and loan associations.

In 1982 the Garn-St Germain Act spelled out more specifically some of the changes occasioned by the 1980 legislation and made some technical adjustments as well.

Five full years after the legislation was enacted the various financial services industries are becoming increasingly homogeneous.

The Economy in the 1980's

Probably the most important, as well as the most acclaimed economic characteristic of the early 1980's was the significant slowdown in inflation, from the double-digit levels of previous years to a 6.1% increase for 1982, as measured by the Bureau of Labor Statistics' consumer price index annual averages and changes. Credit for this progress is largely attributed to the Federal Reserve, as the result of its anti-inflationary monetary policy adopted some five years ago.

The economy began to pick up in 1983 after interest rates fell. While the Fed and the Reagan Administration disagreed loudly on whether tight money or unprecedented deficits projected to be over $200 billion would cause rates to either slow their decline or even to rise again, both agreed with economists that unless interest rates made it more attractive to borrow and invest money in productive activity, they could choke off the still tenuous recovery. Interest rates turned out to be comparatively stable throughout 1983, rising only slightly during the second half of the year.

Recovery continued not at all tenuously, however, with nominal Gross National Product rising a total of 7.4% during the year and real GNP growing 3.5%. The strength of this recovery was surprising to many who had anticipated much more lethargic improvement. Employment increased markedly, as did industrial production and the utilization of capacity in manufacturing. Unemployment fell while the labor force grew consistently, and the Commerce Department's indexes of leading and coincident economic indicators signailed continued if slightly slower growth during 1984. The increasing interest rates observed at the end of 1983 and in early 1984 continued during approximately half of 1984, before they began to decline again, a trend which continued through the year.

1984 turned out to be an extremely strong year for the economy as a whole, GNP growing 11% in nominal dollars and 6.5% in real (1982) dollars. The $373 billion (current-dollar) increase was composed of $193 billion from consumers in the form of increased personal consumption expenditures. $172 billion was higher private domestic investment of all types. Government spending increased $61 billion (46% of it federal and 54% state and local). Finally, the excess of imports over exports drained $54 billion more from the U.S. economy in 1984 than in 1983. The bulk of economic growth during 1984 thus took place in the consumer and business sectors.

During 1984 industrial production and capacity utilization for all industries rose 11.5% and 8.7% respectively over their average 1983 levels. The index of industrial production reached an annual average of 121.8% of its 1977 level, and the percent of capacity utilized in all industries averaged 81.2.

During this year of very strong economic growth, inflation did not reappear as a major threat to economic progress and in fact was lower during the past years of recovery than during recession-year 1982. The increase in the annual average of the Consumer Price Index for Urban Consumers (CPI-U) was 4.3% in 1984. This was slightly more of an increase than occurred during 1983 (3.2%), which is not surprising, given the overall level of economic activity during the more recent period. Both of these increases show continued success in avoiding the high levels of inflation that occurred prior to 1982.

The major areas of concern to economy-watchers in 1984 were the foreign trade and federal government deficits. The trade deficit, a new phenomenon for the U.S., increased tenfold in 1984, reaching $59 billion. The federal deficit shrank slightly during 1984 to $173 billion, but remained more than two-and-a-half times as large as the 1980 deficit.

1985

The economy slowed distinctly in 1985 from its rapid growth in 1984. Overall growth in nominal GNP was 5.7% for the year, 2.2% in real terms. Contributing to the $214 billion nominal growth was $159 billion in additional consumption spending and $79 billion in government spending. Gross domestic investment was $5 billion less than in 1984, and the foreign trade sector showed imports exceeding exports by $18 billion more than last year.

Industrial performance in 1985 was weaker than in 1984. Capacity utilization generally declined across the year, the December ratio for all industries of 80.7% being about the same as the year's average, which was 6 tenths of a point below the 1984 average. The industrial production index followed a similarly flat course during the year, although it did turn upward slightly in the fourth quarter. In December the index was at 126.3% of its 1977 level, just above the annual average of 124.5%. That annual average was 2.2% above last year's, a pale performance compared to the 11% increase during 1984.

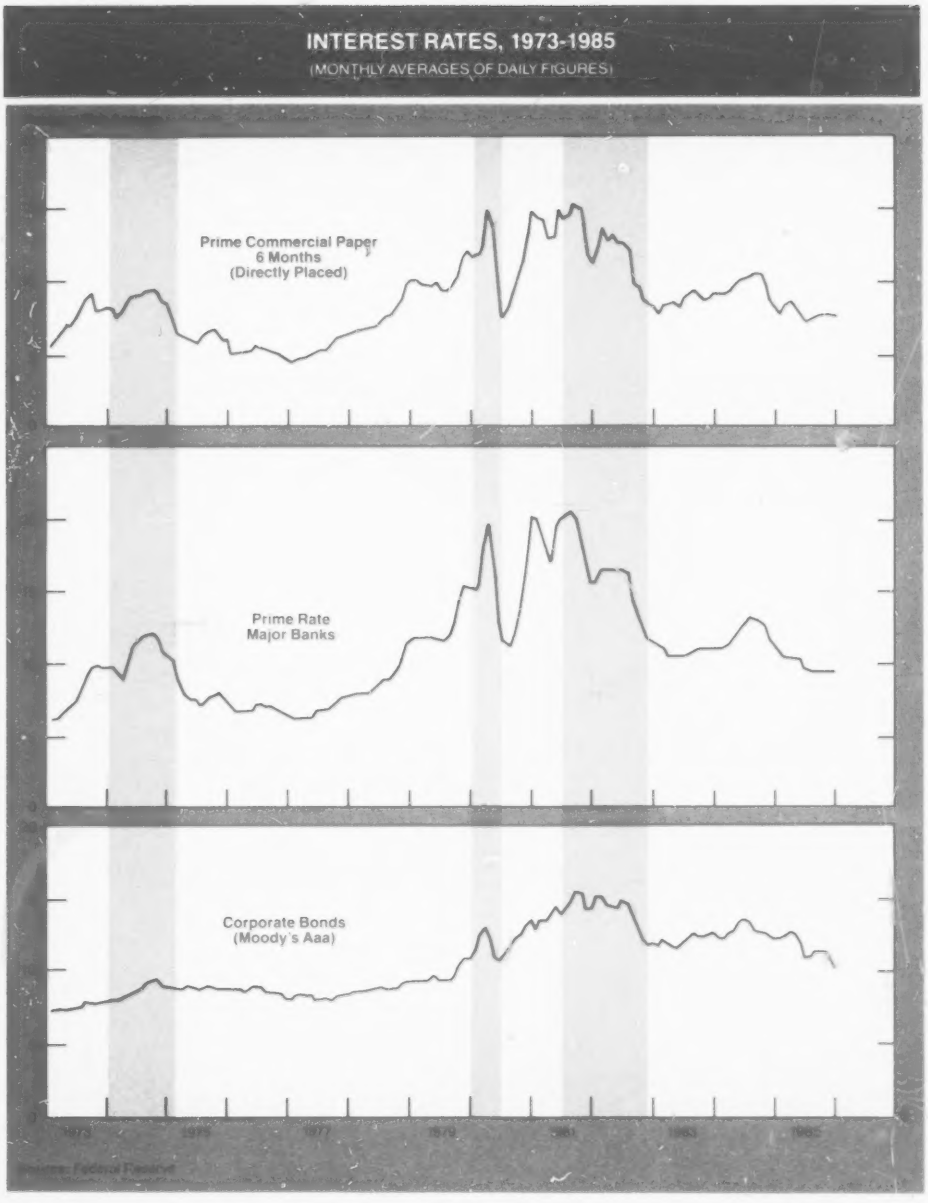
Consumer prices, however, brought encouraging news in 1985, increasing only 3.7%, less than in any 12 month period since 1972. Unfortunately, some of that mildness was due to rapidly falling oil prices at the end of the year, which were accompanied by serious problems in that industry and in certain regions of the country.

Neither the foreign trade nor the federal government's deficits became of any less concern during 1985. Both increased faster than GNP, the federal deficit coming in just a hair under $200 billion for the year (despite the savings from closing the Smithsonian buildings and the Library of Congress in evening hours).

In spite of such massive borrowing by Washington, the weakness in investment and decline in inflationary expectations allowed interest rates to come down during the year as a whole. The prime rate was lowered from 10.75% at the beginning of the year to 9.5%. Average monthly rates on finance company commercial paper fell from 8.55% in December of 1984 to 7.62% 12 months later, and on AAA corporate bonds from 12.13% to 10.16% (Chart 23).

For the near future, there are several items to be watched. Good news may be upcoming from the trade sector, if the effects of a weakening dollar begin to improve the balance of trade. The decline in the price of oil, which has already reached the gas pump and looks as if it will continue to do so, may lead to increased real consumer spending by keeping increases in the Consumer Price Index small. At the same time, regional problems can be expected to worsen before they improve in those areas with heavy concentration on oil and related businesses. The federal deficit remains a problem and in light of the Supreme Court's rejection of the automatic mechanism for ensuring spending cuts that was created in the Gramm-Rudman-Hollings legislation, it looks as if Congress will have to address the problem again. In addition, the poor economic performance in the beginning of 1986, and the resulting lower than projected federal government revenue has made it clear that even further spending restraint will be necessary if the deficit for the fiscal year is to meet the $144 billion target set in Gramm-Rudman.

CHART 23


INTEREST RATES, 1973-1985
(MONTHLY AVERAGES OF DAILY FIGURES)
Prime Commercial Paper
6 Months
(Directly Placed)
Prime Rate
Major Banks
Corporate Bonds
(Moody's Aaa)

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